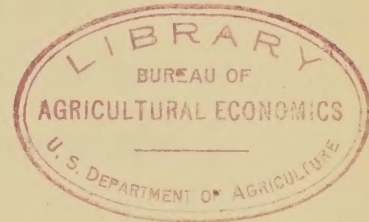


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Economic Brief With Respect to the
Proposed Marketing Agreement and Proposed Order
for the
La Porte County, Indiana, Marketing Area

by



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Introduction

The proposed marketing agreement and proposed order relative to the handling of milk in the La Porte County, Indiana, Marketing Area is intended to maintain returns to producers supplying milk to the area at a level which will restore their purchasing power in accordance with the policy of Congress, as stated in the Agricultural Marketing Agreement Act of 1937. This objective can be attained through the maintenance of efficient and stabilized marketing conditions in the channels of interstate commerce, as provided for in the provisions of the proposed marketing agreement and proposed order. The principal methods by which it is proposed to accomplish this purpose are:

1. The classification of milk into three types of uses.
2. The fixing of the minimum price for one use which handlers shall pay producers, and the fixing of the minimum prices by formulas for the other two uses.
3. The equitable apportionment of the proceeds of milk to all producers through the computation of producer prices by means of individual-handler pools and a base-rating plan.

The economic basis for the proposed marketing agreement and proposed order is set forth in detail on the following pages.

PART I

Economic Conditions With Respect to Milk Producers

In 1933 there existed an acute economic emergency which was in large part the consequence of a severe and increasing disparity between the prices of agricultural and other commodities. This disparity largely destroyed the purchasing power of farmers for industrial commodities. Such conditions which affect the purchasing power of farmers are in part caused by and in part are accompanied by a disruption of orderly marketing of agricultural commodities in the channels of interstate commerce.

Cash income from farm production in the United States in 1932 was less than 50 percent of the 1929 income. Such a severe economic emergency existed that producers of agricultural commodities in many places made requests for Federal regulation of the marketing of such commodities, to bring about more orderly and stabilized marketing conditions. Under licenses, marketing agreements, and orders the Federal Government has regulated much of the interstate commerce of milk and other agricultural commodities. Since 1933 the Federal Government has participated in the regulation of milk prices and milk marketing practices in 54 markets throughout the United States.

The necessity for the regulation of interstate commerce in milk becomes obvious when the importance of milk production as an agricultural enterprise is considered. In 1929 over 1.8 billion dollars or 18 percent of all cash income arising from farm products sold in the United States was supplied from the sale of dairy products; in 1932, 22.6 percent was supplied from this source; and in 1935, 17.9 percent of the cash income from sales of all agricultural products was supplied from the sale of dairy products. (See table 1.)

The general disparity between the prices of farm commodities and the prices of other commodities that existed in 1933 does not exist to the same extent at the present time. But continuing and constantly recurring disparities caused by disruptions of orderly marketing do exist in the marketing of fluid milk.

The proposed program for the La Porte County, Indiana, Marketing Area recognizes this disruption of interstate commerce. At the request of producers supplying milk to this marketing area the Federal Government has drawn up the proposed marketing agreement and proposed order, which has as its purpose the maintenance of orderly and stabilized marketing conditions and the consequent maintenance of the purchasing power of producers in this area by regulating the marketing of milk which moves in interstate commerce in this marketing area.

Table 1.- Cash income from all farm production and percentage cash income from dairy products was of cash income from all farm production in the United States and in specified States which include the La Porte County, Indiana, supply area, 1929-1935

Year	United States			Indiana			Michigan		
	Cash income from total farm production	Percent which cash income from dairy products was of total cash income from farm production	1,000 dollars	Cash income from total farm production	Percent which cash income from dairy products was of total cash income from farm production	1,000 dollars	Cash income from total farm production	Percent which cash income from dairy products was of total cash income from farm production	1,000 dollars
1929	10,284,479	18.0		300,277	19.2		245,963	31.7	
1930	7,987,606	20.2		238,082	20.6		199,656	33.0	
1931	5,795,148	22.1		181,003	21.6		150,885	34.9	
1932	4,368,296	22.6		134,448	22.5		118,567	33.3	
1933 ^{1/}	5,402,094	18.3		152,248	19.4		134,612	30.1	
1934 ^{1/}	5,225,161	18.2		202,725	16.3		158,452	31.0	
1935 ^{1/}	7,203,416	17.9		236,029	16.0		185,620	30.0	

1/ Includes benefit payments and Government purchases.
2/ Preliminary.

Compiled from reports of the Bureau of Agricultural Economics, Division of Crop and Livestock Estimates.

An economic emergency with respect to milk producers similar to that which existed in the United States as a whole prevailed in Indiana and Michigan, the States in which the supply of milk for the La Porte County, Indiana, Marketing Area is produced.

From 1929 to 1933^{1/} the prices received by farmers in these States for milk sold wholesale declined steadily. (See table 2.) In 1933 the average farm price of milk sold wholesale in Michigan was 51.2 percent lower and in Indiana was 48 percent lower than in 1929. While prices received by farmers for milk sold at wholesale in these States declined markedly, the prices paid by farmers for commodities bought declined to a much less extent, the index of such prices declining from 95.5 (1919-1929 = 100) in 1929 to 68 in 1933, a decline of only 28.8 percent. (See table 2.) Thus, there was a marked decline in the purchasing power of milk sold wholesale by farmers in these States during this period from 1929 to 1933.

From 1929 to 1933 there was also a marked decline in the gross income from milk produced on farms^{2/} and the cash income from dairy products sold in the two States which supply the milk sold in the La Porte County Marketing Area. In 1929 the gross income from milk produced on farms was \$68,110,000 and \$90,207,000 in the States of Indiana and Michigan, respectively. In 1933 the gross income from milk produced on farms was 46.8 percent and 47.1 percent below comparable figures in 1929 in the States of Indiana and Michigan, respectively. (See table 3.)

Cash income from dairy products sold from farms^{3/} during the same period dropped 48.8 percent in Indiana and 48.1 percent in Michigan. (See table 4.)

The foregoing facts and considerations demonstrate that, in the two States which supply milk to the La Porte County Marketing Area, during the period 1929 to 1933 there was a marked decline in (1) the prices received by producers for milk sold wholesale, (2) the purchasing power of such milk, (3) the gross income from milk produced on farms, and (4) the cash income from dairy products sold from farms.

^{1/} It can be seen in figure 5, p. 52, that the prices paid for milk in these two States in 1929 were not abnormally high.

^{2/} Calculated by multiplying the estimated quantity of milk produced, less milk fed to calves, by the average value per 100 pounds. It includes the value of milk, cream, and butter consumed in the household on the farms where produced.

^{3/} Computed by adding together the estimates of receipts from sales of milk, cream, butterfat, and butter. The income from sales of dairy cattle and calves is not included.

Table 2.- Index of prices paid by farmers for commodities bought, wholesale farm price of milk per hundredweight in Michigan and Indiana, and percent decline since 1929, by years, 1929-1936, by months, 1937

Year and month	Index of prices paid by farmers for commodities bought, August 1919-July 1929 = 100	Farm price of milk sold wholesale per hundredweight in		Percent decline from 1929	
		Michigan	Indiana	Michigan	Indiana
	Percent	Dollars	Dollars	Percent	Percent
1929	95.5	2.42	2.54	-	-
1930	90.5	2.10	2.23	13.22	12.20
1931	77.4	1.53	1.73	36.78	31.89
1932	66.8	1.10	1.40	54.55	44.88
1933	68.0	1.18	1.32	51.24	48.03
1934	76.7	1.46	1.48	39.67	41.73
1935	78.0	1.62	1.58	33.06	37.80
1936	77.4	1.83	1.90	24.38	25.20
1937					
January	81.1	2.00	2.20	17.36	13.39
February	82.4	1.95	2.20	19.42	13.39
March	82.4	1.95	2.05	19.42	19.29
April	83.6	1.95	2.05	19.42	19.29
May	83.6	1.90	1.95	21.49	23.23
June					
July					
August					
September					
October					
November					
December					

Compiled from reports of the Bureau of Agricultural Economics, Division of Crop and Livestock Estimates.

Table 3.- Gross income from milk produced on farms in the United States and in specified States which include the La Porte County, Indiana, supply area, and the percentage decline from 1929 in such gross income, 1929-1935

Year	United States		Indiana		Michigan	
	Gross income from milk production	Percent decline from 1929	Gross income from milk production	Percent decline from 1929	Gross income from milk production	Percent decline from 1929
	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent
1929	2,322,553	-	68,110	-	90,207	-
1930	2,030,853	12.6	58,113	14.7	76,131	15.6
1931	1,614,394	30.5	46,142	32.3	60,709	32.7
1932	1,260,424	45.7	36,396	46.6	46,276	48.7
1933	1,262,554	45.6	36,222	46.8	47,719	47.1
1934	1,478,177	36.4	41,244	39.4	57,553	36.2
1935 ^{1/}	1,680,625	27.6	46,969	31.0	64,999	27.9

^{1/} Preliminary.

Compiled from reports of the Bureau of Agricultural Economics, Division of Crop and Livestock Estimates.

Table 4.- Cash income from dairy products sold from farms in the United States and in specified States which include the La Porte County, Indiana, supply area, and percentage decline from 1929 in such cash income, 1929-1935

Year	United States		Indiana		Michigan	
	Cash income from dairy products sold from farms	Percent decline from 1929	Cash income from dairy products sold from farms	Percent decline from 1929	Cash income from dairy products sold from farms	Percent decline from 1929
	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent
1929	1,847,235	-	57,756	-	78,089	-
1930	1,615,363	12.6	49,074	15.0	65,929	15.6
1931	1,278,531	30.8	39,009	32.5	52,713	32.5
1932	985,099	46.7	30,200	47.7	39,489	49.4
1933 ^{1/}	988,880	46.5	29,580	48.8	40,491	48.1
1934 ^{1/}	1,133,520	38.6	33,098	42.7	49,086	37.1
1935 ^{1/ 2/}	1,292,113	30.1	37,756	34.6	55,629	28.8

^{1/} Includes benefit payments and Government purchases.
^{2/} Preliminary.

Compiled from reports of the Bureau of Agricultural Economics, Division of Crop and Livestock Estimates.

The condition of milk producers in the States which supply milk to La Porte County improved somewhat in 1934, 1935, and 1936. But in 1935^{4/} gross income from milk produced on farms in Indiana and Michigan was still 31 percent and 27.9 percent, respectively, below the 1929 level. The farm prices of milk sold wholesale in 1936 in Indiana and Michigan averaged only \$1.90 and \$1.83 per hundredweight, respectively, still considerably below the prices received in 1929. Thus, the dairy farmers in this area have not been fully relieved, and the institution of a Federal program in this market appears necessary.

As in the United States as a whole, milk production is an agricultural enterprise of great importance in Indiana and Michigan. Some indication of this importance is given in table 1, which shows the percentage of total cash income of agriculture which is derived from the dairy enterprise.

In Indiana the sales of dairy products amounted to \$57,756,000 or 19.2 percent of the farmers' cash income in 1929, \$30,200,000 or 22.5 percent in 1932, and \$37,756,000 or 16 percent in 1935. In Michigan the sales of dairy products represented 31.7 percent of the farmers' cash income in 1929, 33.3 percent in 1932, and 30 percent in 1935.

The disruption and instability of interstate commerce in this important agricultural enterprise in Indiana and Michigan cause a serious decline in the purchasing power of farmers. Consequently, action directed toward establishing and maintaining orderly marketing conditions for the La Porte County, Indiana, Marketing Area, is warranted and necessary to effectuate the policy of Congress as stated in the Agricultural Marketing Agreement Act of 1937.

PART II

Character of the Commerce in Milk in the La Porte County, Indiana, Marketing Area

The La Porte County, Indiana, Marketing Area, situated on the boundary line between the States of Indiana and Michigan, has much interstate commerce in fluid milk. Milk is shipped to handlers in the marketing area from both States, and handlers operating in the area sell milk in both States. In addition, some handlers handling milk which does not cross State lines mingle such milk with milk which has crossed State lines.

^{4/} Latest year for which figures on income are available.

The milk for fluid use in the marketing area is produced principally in the counties of La Porte, Indiana, and Berrien, Michigan. At times, however, milk is brought to the marketing area from the counties of Kosciusko, La Grange, Elkhart, Marshall, Porter, Starke, and St. Joseph in Indiana, and the counties of Cass and St. Joseph in Michigan. All of the fluid cream used as sweet cream in the marketing area is also produced in this same supply area.

Approximately 7,539,660 pounds of milk were purchased by handlers who operated in the La Porte County Marketing Area between September 1936 and April 1937. Of this amount, 6,930,544 pounds or 91.9 percent was purchased in the State of Indiana and 609,116 pounds or 8.1 percent was purchased in the State of Michigan. (See table 5.)

On the way from producers to handlers in this period, 347,272 pounds or 4.6 percent of the total milk handled in the marketing area crossed State lines. During the same period 571,848 pounds or 7.8 percent of total purchases crossed State lines on the way either to a handler or to the consumer, and 696,720 pounds or 9.5 percent crossed State lines on the way either to handler or to consumer, or was mixed with milk which crossed State lines.

Some milk produced in the State of Indiana never leaves the State or comes in physical contact with milk which has been purchased outside of Indiana or with milk which is purchased for sale in other States. But the economic boundaries of a marketing area do not always have any close relation to the political boundaries, and the provisions of a marketing agreement and order are based on economic boundaries.

Section 8c (1) of the Agricultural Marketing Agreement Act of 1937 provides that: "The Secretary of Agriculture shall, subject to the provisions of this section, issue, and from time to time amend, orders applicable to processors, associations, and others engaged in the handling of any agricultural commodity or product thereof specified in subsection (2) of this section. Such persons are referred to in this title as 'handlers.' Such orders shall regulate, in the manner hereinafter in this section provided, only such handling of such agricultural commodity, or product thereof, as is in the current of interstate or foreign commerce, or which directly burdens, obstructs, or affects interstate or foreign commerce in such commodity or product thereof."

Section 8c (5) (A) of the Agricultural Marketing Agreement Act of 1937 states that: "In the case of milk and its products, orders issued pursuant to this section shall contain one or more of the following terms and conditions, and (except as provided in subsection (7)) no others:

"(a) Classifying milk in accordance with the form in which or the purpose for which it is used, and fixing, or providing a method for fixing, minimum prices for each use classification which

Table 5.- LA PORTE COUNTY, INDIANA: Purchases of milk of Indiana and Michigan handlers as to State of origin, with percent of total, and estimated sales of Michigan handlers in Indiana, by months, September 1936-April 1937

Year and month	Indiana handlers		Michigan handlers		Percent of milk purchased in		Total purchases	Michigan handlers	
	Purchases of milk in		Estimated purchases		Indiana Michigan			Estimated sales in	
	Indiana	Michigan	Indiana	Michigan	Indiana	Michigan			
	Pounds	Pounds	Pounds	Pounds	Percent	Percent			
1936									
September	927,767	31,196	18,600	51,060	92.0	8.0	1,028,623	46,440	
October	823,638	24,960	19,220	52,762	91.6	8.4	920,580	47,988	
November	780,516	21,719	18,600	51,060	91.7	8.3	871,895	46,440	
December	799,364	22,120	19,220	52,762	91.6	8.4	893,966	47,988	
1937									
January	846,525	20,264	19,220	52,762	92.2	7.8	938,771	47,988	
February	796,089	18,796	17,360	47,656	92.4	7.6	879,901	43,344	
March	918,439	27,904	19,220	52,762	92.1	7.9	1,018,325	47,988	
April	887,666	30,273	18,600	51,060	91.8	8.2	987,599	46,440	
Total	6,780,504	197,232	150,040	411,884	91.9	8.1	7,539,660	374,616	

Compiled from reports of the Indiana State Milk Control Board.

all handlers shall pay, and at the same time when payments shall be made, for milk purchased from producers or associations of producers. Such prices shall be uniform as to all handlers, subject only to adjustments for (1) volume, market, and production differentials customarily applied by the handlers subject to such order, (2) the grade or quality of the milk purchased, and (3) the locations at which delivery of such milk, or any use classification thereof, is made to such handlers."

As was pointed out above, much of the milk in the La Porte County, Indiana, Marketing Area either moves across State lines as milk or cream or becomes mixed with milk which has crossed State lines. The question as to the degree to which the regulation of commerce in milk as specified in the proposed marketing agreement and proposed order must be extended to the handling of milk that does not move across State lines or does not become mingled with the milk which has moved across State lines obviously depends upon the extent to which the handling of such milk burdens, obstructs, or affects the interstate commerce in milk in the La Porte County, Indiana, Marketing Area.

The proposed marketing agreement and proposed order fixes the prices which handlers shall pay for interstate milk purchased from producers. If prices were fixed with respect to that milk which does not move across State lines and were not fixed for milk that does move across State lines or become mingled therewith, it would be impossible for any program to maintain orderly marketing conditions. The State of Indiana Milk Control Board has already fixed prices on intrastate milk which is ultimately sold in the marketing area.

The reason for fixing prices on both interstate and intrastate milk is that, with prices fixed by the State Order for some milk, it would be to the interest of handlers to change their sources of supply in order to procure milk with respect to which prices were not fixed, i.e., milk moving across State lines. A handler buying milk outside Indiana only and selling all his milk at the fluid milk price could buy milk at a price which handlers complying with the State Order were paying their producers, which would be a combination of the fluid milk price and the excess price. (See page 54 for fuller explanation.) In this way he would receive some milk at excess prices even though he sold it as milk at fluid milk prices. Thus, not only would a larger volume of milk not moving across State lines be sold at excess prices, lowering the prices received by farmers in Indiana, but some of them would probably be left without any market for their milk. It is obvious that the competition between milk from different sources would bring about the results set forth above and that eventually would react on interstate commerce in milk, causing serious curtailment and disruption.

From the foregoing facts and considerations it is concluded that much of the milk handled in the La Porte County, Indiana, Marketing Area actually moves across State lines or is directly mingled with milk which has moved across State lines, and that, in order to regulate the handling of such milk so as to effectuate the policy of Congress as stated in the Agricultural Marketing Agreement Act of 1937, the handling of all milk in the marketing area must be regulated in the same manner.

PART III

Supply Conditions in the Area Supplying Milk to the La Porte County, Indiana, Marketing Area

A. Location and boundaries of the milk supply area

The milk which enters the La Porte County market comes from the two States of Indiana and Michigan. Regular producers who supply milk to this market are located in the following counties: Elkhart, Kosciusko, La Grange, La Porte, Marshall, Porter, Starke, and St. Joseph in Indiana; Berrien, Cass, and St. Joseph in Michigan. During most of the year the milk supply comes principally from La Porte and Berrien Counties. In the summer season, however, when sales are highest, milk is supplied from the other above-mentioned counties.

All the producers reside within approximately 25 miles of the marketing area and either truck their milk or have it trucked to the marketing area. Located in or within short distances of La Porte County are 22 producer-handlers who handle approximately 11 percent of the milk in the market.

B. Type of farming in the area

Table 6 shows the 8 type-of-farming areas which are found in the milk supply area, and indicates the importance of specialized dairy farming among the enterprises of all farms. Much of the area close to the marketing area is devoted largely to the dairy enterprise. Other important enterprises such as general farming, cash-grain crops, live-stock, and crop-specialty farming are carried on in this area. In the region closest to the marketing area from 25 to 30 percent of farm income arises from dairying.

1. Use of land

The 1930 census of agriculture shows that, in the counties surrounding the La Porte County market, approximately 71-90 percent of the land was in farms in 1929. The 1935 census of agriculture shows that the land in farms in this area had increased to a point

Table 6.- Type-of-farming areas in the La Porte County (Michigan City) area with their description and percent of income from dairying, 1930

Type area number	Characterization of the area	Percent of income from dairying
272	Wisconsin - northeastern Illinois - Fluid milk, intensive dairy	57.0
273	Milwaukee - Chicago Metropolitan Area - Dairy, truck, potatoes, part-time	40.0
301-B	Lake Michigan - Fruit and truck extensively, dairy, potatoes	15.0
312	Southern Michigan - General, dairy, livestock, cash-grain, truck, and some fruit	25.0
314-A	Kankakee basin - General, livestock, cash-grain	12.0
314-B	Kankakee basin - Cash-grain	
315	Northern Indiana - General, dairy, crop-specialty, cash-grain	30.0
316	- General, livestock, dairy, poultry	19.0

Compiled from "Type of Farming Areas in the United States, 1930", Bureau of the Census, U. S. Department of Commerce.

where 82-95 percent was in farms. Of the land in farms in 1929 in specified Indiana counties of the La Porte County supply area, 27.6 percent was devoted to pasture, 18.2 percent to corn, 8.9 percent to threshed oats, and 11.5 percent to hay. (See table 7.) Of the land in farms in 1929 in the Michigan counties of the milkshed, pasture made up 23 percent, corn 11.4 percent, threshed oats 5.5 percent, and hay 12.2 percent. In 1934 on the Indiana side of the supply area there were slight decreases in the amount of land devoted to pasture and threshed oats and slight increases in land devoted to corn and hay. In 1934 on the Michigan side of the milkshed there were slight increases in land devoted to pasture and corn, while land in threshed oats and hay showed slight decreases.

2. Size of farms

Farms in the Indiana counties of the La Porte County milkshed are generally larger than farms for the State of Indiana as a whole. The average size of all farms in these counties in 1929 was 112.8 acres while farms throughout the State averaged 108.4 acres. Dairy farms in these counties averaged 122.5 acres while dairy farms throughout Indiana averaged 109 acres. On the Michigan side of the supply area all farms averaged 94.6 acres while the average for the State of Michigan as a whole is 101.1 acres. Dairy farms in the Michigan counties of the milkshed average 124 acres while throughout Michigan they average 116 acres. There is a tendency for the larger dairy farms in the supply area to be located nearer to the marketing area, although some large dairy farms are found on the outer edge of the milkshed. (See table 8.)

C. Character of the dairy herds

Table 8 shows that the average size of milk cow herds on farms reporting milk cows in the supply area was, in 1929, approximately 5.0 cows. On dairy type farms in the milkshed the average size of herds was 8.6 cows. Porter and La Porte Counties have the largest herds, with 11.9 and 9.9 cows per herd, respectively. Herds on dairy farms on the Indiana side of the milkshed are generally slightly larger than herds in the Michigan counties of the supply area.

Milk cows are approximately 50 percent of all cattle in the supply area. St. Joseph and Elkhart Counties in Indiana and St. Joseph County in Michigan have the highest percentages of milk cows to all cattle. These percentages are 55.4, 52.9, and 52.4 for the above counties, respectively. The percentages of milk cows to all cattle are smallest in Kosciusko, Marshall, and Starke Counties in Indiana, where they are 41.5, 47.7, and 48.6 for each county, respectively.

It does not appear that the proportion that dual-purpose or beef-breeding cows are of all cows milked increases with the distance from the market. For example, in La Porte, Starke, and Marshall Counties the percent that milk cows of dual-purpose or beef-breeding

Table 7.- Use of land in selected counties in the La Porte County milk supply area, 1929 and 1934

State and county	Percent of land in farms in specified crops											
	Percent of land in farms is of total land		All pasture		All crops		Corn		Threshed oats		Hay	
	1929	1934	1929	1934	1929	1934	1929	1934	1929	1934	1929	1934
Indiana	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Elkhart	83.3	86.2	26.0	23.4	66.4	68.4	16.3	16.8	8.8	7.4	14.4	15.0
Kosciusko	90.3	93.0	34.0	30.3	58.2	60.7	20.0	19.2	9.0	6.2	11.1	11.0
La Grange	89.6	91.1	29.6	27.9	62.8	62.9	17.3	16.7	7.8	5.3	13.3	13.1
La Porte	82.4	88.2	22.9	24.3	67.4	67.2	20.3	20.4	10.4	7.1	10.1	10.3
Marshall	89.4	95.8	31.3	29.5	60.2	61.4	18.9	19.4	7.0	5.0	12.3	13.0
Porter	78.5	82.1	24.0	26.1	68.2	65.8	20.1	19.3	14.0	8.3	12.9	13.6
Starke	75.0	87.4	28.3	29.5	60.3	59.6	18.1	20.2	7.5	3.9	6.2	6.0
St. Joseph	71.7	82.0	25.0	21.0	64.7	69.5	15.0	18.5	7.2	5.5	11.7	12.3
State	85.3	88.9	30.3	30.9	59.5	57.7	21.4	19.8	8.4	5.5	9.8	10.3
Michigan												
Berrien	81.6	84.4	19.8	18.6	68.8	70.0	9.7	11.5	4.8	4.7	12.1	11.9
Cass	84.4	86.7	23.4	26.8	60.6	57.4	12.1	13.6	6.2	4.5	11.4	11.4
St. Joseph	87.9	90.3	25.8	25.4	61.8	63.5	12.5	13.3	5.6	2.9	13.1	12.8
State	46.5	50.2	34.4	35.7	53.1	51.9	7.0	8.6	7.0	6.7	15.9	16.0

Compiled from the U. S. Census of Agriculture, 1930 and 1935.

Table 8.- Type and size of farm, size of herd, and type of cattle enterprise in selected counties which include the La Porte County milk supply area, 1929

State and county	Percent of farms with over 40% income from dairy	Average size of farm Acres	Average size of dairy-type farm Acres	Number of milk cows		Total number of cattle per square mile	Percent of farms reporting cows milked	Percent milk cows are of all cattle	Percent milk cows of dual-purpose or beef-breeding are of all cows milked	
				per reporting milk cows	per dairy-type farm				All farms	Dairy farms
	Percent	Acres	Acres	Number	Number	Number	Percent	Percent	Percent	Percent
Indiana										
Elkhart	26.0	84.9	92	5.4	7.7	55.7	86.8	52.9	6.8	2.8
Kosciusko	7.5	99.5	103	4.4	7.7	53.8	87.0	41.5	8.7	5.2
Ia Grange	10.3	119.5	113	5.2	8.3	46.0	89.9	49.1	9.0	3.1
Ia Porte	22.2	147.0	154	6.1	9.9	37.3	85.9	50.3	11.4	4.8
Marshall	17.5	102.9	118	5.4	9.3	55.4	87.7	47.7	12.9	5.7
Porter	36.3	124.3	146	7.4	11.9	48.8	85.2	52.2	3.4	1.3
Starke	14.3	120.8	136	4.3	8.2	28.9	92.2	48.6	11.1	7.5
St. Joseph	26.0	103.5	118	5.6	8.8	37.8	84.7	55.4	2.8	2.2
State	9.5	108.4	109	4.2	8.3	40.1	86.0	45.8	11.5	4.8
Michigan										
Berrien	9.3	55.1	107	3.1	7.7	40.4	68.1	49.7	6.9	5.4
Cass	13.4	109.2	128	4.2	7.1	33.1	77.3	49.0	7.8	2.4
St. Joseph	11.2	119.6	137	4.2	7.6	29.7	79.1	52.1	15.3	6.6
State	24.0	101.1	116	5.3	8.1	26.6	83.5	48.8	9.0	5.8

Compiled from the U. S. Census of Agriculture, 1930.

types are of all cows milked was 4.8, 7.5, and 5.7 percent, respectively, while in Kosciusko County, Indiana, and St. Joseph County, Michigan (more distant counties), the proportion was 5.2 and 6.6 percent, respectively. (See table 8.) Such a condition would seem to indicate that fluid milk producers are scattered throughout the entire supply area. This probably can be accounted for by the fact that the milksheds of Chicago, Illinois, South Bend, and Elkhart, Indiana, are interrelated with that of La Porte County.

Table 9 shows that milk production per cow varies among the counties of the supply area. Porter and La Porte Counties in Indiana, which are important counties in the supply area, had in 1929 the highest production per cow, with 6,168.8 and 5,914.4 pounds per cow produced on dairy farms in these counties, respectively. Berrien County, Michigan, also had a comparatively high production, with 5,707.8 pounds per cow on dairy farms. However, the variation among counties as to production per cow is not as marked in the La Porte supply area as in many other producing regions.

In summarizing the most significant of the county figures on the milk produced per herd daily, it is of interest to note that Porter County produced 111.8 pounds per average herd and 200.3 pounds per herd on dairy farms; La Porte County produced 83.8 pounds per average herd and 160.6 pounds per herd on dairy-type farms; while Berrien County produced 42.3 pounds per average herd and 121.0 pounds per herd on dairy-type farms.

D. Production and disposition of milk

1. Production.

In Elkhart County, Indiana, 144,650 pounds of milk were produced per square mile in 1929. In Porter and Marshall Counties, Indiana, 140,546 and 125,913 pounds of milk were produced per square mile, but in Starke County, Indiana, only 57,537 pounds were produced per square mile. By comparison, La Porte County is not an intensive producing region, having produced only 94,305 pounds per square mile in 1929.

The total milk produced in the counties in which the La Porte County supply originates was, in 1929, approximately 538 million pounds. (See table 9.)

There is little difference in the type of farming practiced on general farms close to the marketing area and that carried on by farmers who live at greater distances. Dairying, cash-grain, live-stock, and general farming are all characteristic of the farming enterprise both near, and at more distant points from, the marketing area.

Table 9.- Total production, production per square mile, per cow and daily per herd, and expenditures for feed per farm in selected counties which include the La Porte County milk supply area, 1929

State and county	Total milk produced Pounds	Milk produced per square mile		Milk production per cow		Milk produced daily per herd		Annual expenditures for feed per farm	
		Pounds	Pounds	All farms	Dairy farms	All farms	Dairy farms	All farms	Dairy farms
Indiana									
Elkhart	66,828,235	144,650		4,911.3	5,505.8		116.6	181.95	174.09
Kosciusko	36,955,246	105,278		4,708.6	5,843.2		123.9	253.58	210.13
La Grange	43,852,595	113,314		5,018.6	5,483.8		125.1	201.01	198.42
La Porte	56,111,812	94,305		5,028.4	5,914.4		160.6	224.01	257.35
Marshall	55,527,465	125,913		4,765.1	5,653.3		144.6	192.73	206.45
Porter	58,326,507	140,546		5,515.5	6,168.8		200.3	211.88	242.83
Starke	17,548,756	57,537		4,095.4	4,682.6		104.9	212.14	223.65
St. Joseph	47,099,646	102,391		4,896.0	5,560.3		133.4	239.01	214.64
State	2,856,771,994	79,256		4,313.0	5,321.7		121.3	229.79	275.77
Michigan									
Berrien	56,706,267	99,660		4,952.9	5,707.8		121.0	193.80	278.59
Cass	40,234,884	81,795		5,035.7	5,689.1		110.2	196.55	217.87
St. Joseph	38,794,428	77,126		4,961.6	5,487.1		114.7	199.11	309.27
State	3,867,904,085	67,291		5,181.1	5,796.2		128.4	196.23	233.16

Compiled from the U. S. Census of Agriculture, 1930.

2. Disposition of the farmers' output

Of the 538 million pounds of milk produced in 1929 on farms in the supply area, approximately 41 percent is produced on dairy-type farms. Whole milk sold from dairy-type farms amounts to over 153 million pounds and represents 61 percent of the fluid milk sold from all farms. The milk sold from all farms in the supply area represents about 46 percent of all milk produced in the area.

Of the 56 million pounds of milk produced in La Porte County, Indiana, over 40 million pounds or 72.7 percent is sold as whole milk. About 61 percent of the whole milk sold from this county is produced on dairy farms.

On the other hand, in St. Joseph County, Michigan, only 13 percent of the total milk produced is sold as whole milk, and approximately 72 percent of the whole milk sold from this county is produced on dairy-type farms.

The percent of whole milk sold from all farms on the Indiana side of the supply area averages 59.9 percent, while the whole milk sold from farms throughout the State of Indiana averages 43.0 percent of all milk produced. On dairy-type farms throughout the State of Indiana the whole milk sold is 73.7 percent of the total milk produced on such farms, while in that part of the supply area which lies in Indiana the percent is even greater, being nearly 81 percent of the milk produced on such farms. In the Michigan counties supplying milk to La Porte County, the percent of whole milk sold from all farms averages only 27 percent, while the whole milk sold from all farms throughout the State of Michigan averages 49.2 percent. On dairy-type farms throughout the State of Michigan the whole milk sold from such farms is a very large quantity, being 65.4 percent of the total milk produced on such farms, while in the Michigan section of the supply area the whole milk sold from dairy farms amounts to 50.1 percent of the supply produced on such farms. Dairy farms on the Indiana side of the La Porte County milkshed sell nearly 81 percent of the quantity produced as whole milk while dairy farms on the Michigan side of the supply area sell only 50.1 percent of their production as whole milk. (See table 10.)

The quantity of milk sold as farm butter from the La Porte County supply area amounts to approximately 1.7 percent of the total milk produced. The amount of milk sold as cream amounts to only .4 percent of the total supply in the area. The percent of total production sold as butterfat in the Indiana counties of the milkshed is 21.4, while the corresponding percentage in the Michigan counties of the milkshed is 57.0. In the Indiana section of the supply area 14.4 percent of the milk produced on farms is used on the farms, and 12.8 percent of the milk is used on the farms in the Michigan portion of the milkshed. (See table 11.)

Table 10.-- Disposition of milk produced on farms in selected counties which include the La Porte County milk supply area, 1929

State and county	Total milk produced		Whole milk sold		Farm butter sold	
	All farms Pounds	Dairy farms Pounds	All farms Pounds	Dairy farms Pounds	All farms Pounds	Milk equivalent Pounds
Indiana:						
Elkhart	66,828,235	32,137,314	41,798,047	25,604,316	60,583	1,115,278
Kosciusko	56,955,246	10,528,817	28,971,560	8,621,036	28,534	525,285
La Grange	43,852,595	8,719,299	13,620,671	4,307,009	10,644	195,946
La Porte	56,111,612	27,732,824	40,779,747	25,233,312	73,736	1,357,413
Marshall	55,527,465	22,697,928	30,480,395	18,367,261	27,290	502,384
Porter	58,326,507	44,526,474	47,631,633	41,905,418	54,485	1,003,019
Starke	17,548,756	6,625,913	7,733,051	5,126,787	10,436	210,526
St. Joseph	47,099,646	25,855,418	38,517,904	24,368,547	62,358	1,147,954
State	2,856,771,994	765,947,743	1,227,392,808	564,819,414	2,987,343	54,994,269
Michigan:						
Berrien	56,706,267	22,043,683	27,611,865	17,482,269	89,305	1,854,796
Cass	40,324,884	13,113,297	7,729,534	4,895,851	61,596	1,279,302
St. Joseph	38,794,428	11,089,408	5,141,252	3,743,864	15,235	316,418
State	5,367,904,085	1,906,784,750	1,904,130,635	1,246,922,067	4,717,937	97,987,922

Compiled from the United States Census of Agriculture, 1930.

(Continued)

Table 10 (Continued).—Disposition of milk produced on farms in selected counties which include the La Porte County milk supply area, 1929

State and county	Cream sold		Cream sold as butterfat				Milk used	
	From all farms	Milk equivalent	From all farms		From dairy farms		on all farms	
	Pounds	Pounds	Butterfat	Pounds	Butterfat	Pounds	Milk equivalent	Pounds
Indiana:								
Elkhart	17,287	98,222	669,851	15,223,886	166,674	3,788,045		8,592,802
Kosciusko	78,011	443,244	786,582	17,875,364	44,325	1,007,386		9,138,293
La Grange	12,474	70,875	938,637	21,332,659	169,657	3,855,841		8,632,444
La Porte	25,217	143,278	216,510	4,920,682	25,880	588,182		8,910,492
Marshall	17,136	97,364	618,809	14,063,841	81,308	1,847,909		10,383,481
Porter	33,356	189,523	119,921	2,725,477	16,958	385,409		6,776,855
Starke	5,888	33,455	196,663	4,469,614	26,561	603,659		5,102,110
St. Joseph	17,170	97,557	86,165	1,958,295	11,810	268,409		5,377,936
State	3,614,293	20,535,756	41,255,624	937,627,818	5,276,959	119,550,886		513,221,343
Michigan:								
Berrien	44,755	294,441	831,208	21,873,695	127,174	3,345,368		5,071,270
Cass	66,234	435,750	947,271	24,928,184	249,331	6,561,342		5,952,114
St. Joseph	39,169	257,691	1,040,741	27,387,921	250,689	6,597,079		5,691,146
State	6,422,778	42,286,039	46,713,496	1,229,302,526	17,038,437	448,379,921		591,196,963

Compiled from the United States Census of Agriculture, 1930.

Table 11.- Disposition of milk produced on farms in selected counties as percent of total milk produced in the La Porte County milk supply area, 1929

State and county	Percent of total production sold as whole milk		Percent of total production sold as farm butter		Percent of total production sold as cream		Percent of total production as butterfat		Percent of total production used on farms
	All farms		Dairy farms		All farms		Dairy farms		
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	
Indiana:									
Elkhart	62.5	79.7	1.7	.1	22.8	11.8			12.9
Kosciusko	50.9	81.1	.9	.8	31.4	9.5			16.0
La Grange	31.1	49.4	.4	.2	48.6	44.2			19.7
La Porte	72.7	91.0	2.4	.3	8.7	2.1			15.9
Marshall	54.9	80.9	.9	.2	25.3	8.1			18.7
Porter	81.7	94.1	1.7	.3	4.7	.9			11.6
Starke	44.0	77.4	1.2	.2	25.5	9.1			29.1
St. Joseph	81.8	94.2	2.4	.2	4.2	1.0			11.4
State	43.0	73.7	1.9	.7	32.8	15.7			21.6
Michigan:									
Berrien	48.7	79.3	3.3	.5	38.6	15.2			8.9
Cass	19.2	37.3	3.2	1.0	61.8	50.0			14.8
St. Joseph	13.3	33.8	.8	.6	70.6	59.5			14.7
State	49.2	65.4	2.5	1.1	31.8	23.5			15.4

Compiled from the United States Census of Agriculture, 1930.

E. Relation of the feed prices and other prices to butterfat and milk prices

The annual expenditures for feed purchased per farm in the La Porte County supply area, as shown by table 9, indicate that much of the feed fed to dairy cattle in the La Porte County supply area is produced on the farm. Indiana dairy farmers in the milkshed spent in 1929 approximately \$214 for feed. Michigan dairy farmers in the milkshed spent about \$196 for the same purpose in 1929.

In tables 12 and 13 the trends of prices of various feeds, cattle, hogs, and butterfat prices are presented. The relatively high prices of corn and alfalfa hay and other feedstuffs and the relatively high prices of corn and hogs indicate that there is a strong demand for these products and that there is competition between dairy and cattle and hog enterprises for corn, alfalfa hay, and other feedstuffs produced by farmers.

In figures 1 and 2 are presented the trends of prices of various feeds, cattle, hogs, and butterfat prices. Feed and corn prices, after having increased considerably during 1934, declined very sharply in the summer of 1935. Since November 1935 the trends of alfalfa hay and corn prices have been upward and are now at high levels when compared with prices of butterfat. Butterfat prices did not increase in 1934 to the same extent as did corn and feed prices, nor did they fall in 1935 so sharply. Since August 1936 the disparity between butterfat prices and prices of alfalfa hay and corn has become increasingly wide. At the present time butterfat prices in Indiana are unfavorable relative to feed and corn prices.

During 1934 and early 1935, butterfat prices did not appear unfavorable relative to hog and cattle prices. During the period February to July 1935 butterfat prices showed a marked decline and appeared unfavorable relative to hog and cattle prices. This unfavorable situation has been ameliorated somewhat but not fully, despite the sharp increase in butter prices. In August 1936 butterfat prices were quite favorable relative to beef cattle prices but since that date the disparity between these prices and the prices of butterfat and hogs has increased markedly.

F. Seasonal variations in milk deliveries to the marketing area

There is a seasonal variation in milk deliveries in the La Porte County supply area. The average variations in deliveries of 5 representative handlers in the market between September 1936 and May 1937 were nearly 39 percent of average deliveries in the 9-month period. Class I milk^{5/} or milk and cream sales in the market during the same period did not vary as markedly, the average variation for the same 5 handlers being approximately 27 percent of average Class I milk for the

^{5/} See page 65 for definition.

Table 12.- CHICAGO, ILLINOIS: Average prices of feedstuffs (bagged, per ton, in carlots, sight-draft basis)

Year and month	Standard spring wheat bran	Standard spring wheat middlings	Cottonseed meal (41%)	Linseed meal (34%)	Soybean meal (41%)	Gluten feed	White hominy feed	Number medium alfalfa meal	Average eight feed-stuffs	Index of average 1935 = 100
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent
1934										
January	17.00	17.05	27.35	33.30	30.60	17.80	20.10	21.00	23.02	83.0
February	18.45	18.00	29.30	32.95	31.50	18.45	20.75	20.50	23.74	85.6
March	21.40	20.20	29.05	32.00	32.50	19.70	20.30	20.75	24.49	88.3
April	20.30	19.30	27.35	31.15	33.25	19.45	19.15	21.00	23.87	86.1
May	19.50	19.10	26.40	29.70	33.60	17.90	17.75	21.00	23.12	83.4
June	23.45	23.90	28.25	31.90	34.50	20.60	21.95	23.65	26.02	93.9
July	22.10	24.10	31.40	34.10 ^{1/2}	34.50	21.25	22.10	25.50	26.86	96.9
August	25.20	26.20	39.35	44.00 ^{1/2}	37.75	25.70	29.65	28.75	32.08	115.7
September	24.55	24.90	38.30	46.135 ^{1/2}	39.50	28.20	30.40	29.75	32.74	118.1
October	23.70	23.90	39.80	41.30	38.50	28.65	27.85	28.80	31.56	113.9
November	25.43	27.00	42.65	40.90	38.85	30.10	31.90	28.50	33.17	119.7
December	29.20	31.70	43.05	44.00	41.20	34.10	36.50	29.00	36.09	130.2
Average	22.52	22.94	33.52	36.80	35.52	23.49	24.87	24.83	28.06	101.2
1935										
January	28.20	28.70	40.00	44.50	40.70	33.70	33.50	29.00	34.79	125.5
February	28.15	27.50	39.00	40.25	38.45	31.85	31.55 ^{2/3}	29.00	33.22	119.8
March	26.15	26.25	36.30	37.15	37.10	27.45	31.55 ^{2/3}	28.50	31.31	115.0
April	27.75	28.75	36.78	35.00	33.08	24.65	29.60	28.10	30.46	109.9
May	27.50	31.19	35.93	35.50	33.20	25.45	31.00	32.50	31.53	113.7
June	22.50	26.19	32.17	33.13	31.70	24.45	29.88	23.81	28.60	103.2
July	19.95	22.35	30.15	26.60	29.06	22.25	28.50	24.45 ^{3/4}	25.41	91.7
August	18.44	20.31	26.95	23.88	24.00	21.20	26.50	25.00 ^{3/4}	23.28	84.0
September	17.25	19.75	25.94	24.13 ^{1/2}	22.85	19.95	27.25	24.70 ^{2/3}	22.73	82.0
October	17.95	19.20	29.05	27.80 ^{1/2}	25.62	22.00	26.80	24.40 ^{3/4}	24.10	86.9
November	18.13	18.19	28.26	27.50 ^{1/2}	24.40	23.58	24.63	24.50 ^{3/4}	23.65	85.3
December	18.65	18.90	27.95	27.00 ^{1/2}	25.50	23.75	22.80	23.60 ^{3/4}	23.52	84.8
Average	22.55	23.94	32.37	31.87	30.47	25.02	28.63	26.88	27.72	100.0

(Cont'd)

Table 12.- CHICAGO, ILLINOIS: Average prices of feedstuffs (bagged, per ton, in carlots, sight-draft basis)--Continued

Year and month	Standard spring wheat bran	Standard spring wheat middlings	Cotton-seed meal (41%)	Linseed meal (37%)	Soybean meal (41%)	Gluten feed	White hominy feed	Number 1 fine alfalfa meal	Average eight feed-stuffs	Index of average 1935 = 100
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent
1936										
January	18.38	18.44	27.31	27.75	25.15	22.14	23.25	24.00	23.30	84.1
February	18.00	18.19	26.64	27.50	23.90	20.08	22.25	24.50	22.63	81.6
March	18.20	18.30	25.85	26.90	22.30	18.40	20.80	24.50	21.91	79.0
April	19.94	19.94	27.44	26.75	23.28	16.45	20.50	24.00	22.29	80.4
May	17.44	20.75	27.31	27.71	24.78	16.70	21.88	23.25	22.48	81.1
June	19.45	24.50	28.41	29.00	26.10	17.90	24.20	22.70	24.03	86.7
July	27.88	29.81	37.62	43.70	38.90	28.20	33.62	26.12	33.23	119.9
August	28.50	34.06	39.88	50.20	44.28	37.45	41.75	30.25	38.30	138.2
September	25.95	30.00	37.10	48.48	39.70	33.55	37.70	30.00 ²	35.31	127.4
October	28.25	32.19	35.94	46.90	36.90	30.20	35.59	28.50	34.32	123.8
November	31.81	36.12	38.44	46.72	39.15	30.82	40.25	28.31	36.51	131.7
December	34.05	35.10	40.15	49.94	43.00	33.20	42.90	29.08	38.43	138.6
Average	23.99	26.45	32.67	37.63	32.29	25.42	30.40	26.31	29.40	106.1
1937										
January	36.31	36.44	40.34	51.98	44.10	33.95	42.88	29.20	39.40	142.1
February	33.25	34.75	40.15	45.88	41.50	35.32	39.88	29.08	37.43	135.2
March	34.80	37.40	40.73	39.80 ²	41.10	31.75	40.40	27.70	36.71	132.4
April	38.62	39.75	45.58	39.00 ⁴	47.58	35.70	48.38	28.86	40.45	145.9
May ⁴	34.56	39.00	46.26	38.25 ⁴	48.32	35.70	46.25	29.00	39.67	143.1
June										
July										
August										
September										
October										
November										
December										
Average										

1/ 37% protein. 2/ Interpolated. 3/ Fine. 4/ 32%. 5/ Preliminary.

Compiled from reports of the Bureau of Agricultural Economics, Division of Hay, Feed, and Seed.

Table 13.- LA PORTE COUNTY, INDIANA: Prices paid for corn, oats, alfalfa, and clover hay in Michigan and Indiana, by months, 1934-1935

Year and month	Corn per bushel		Oats per bushel		Alfalfa hay per ton		Clover hay per ton	
	Michigan	Indiana	Michigan	Indiana	Michigan	Indiana	Michigan	Indiana
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1934								
January	.49	.40	.37	.32	8.00	10.60	7.30	8.80
February	.51	.43	.39	.33	9.00	11.30	8.00	9.10
March	.52	.45	.40	.33	10.00	11.40	9.00	9.70
April	.52	.45	.40	.32	11.60	12.40	10.30	10.40
May	.52	.45	.40	.32	12.50	12.50	11.50	10.60
June	.59	.52	.45	.37	13.50	12.70	12.10	10.60
July	.63	.55	.45	.38	15.30	13.30	13.50	11.00
August	.76	.69	.48	.42	20.00	15.90	16.60	13.00
September	.82	.75	.52	.47	21.60	16.80	18.00	14.60
October	.79	.71	.50	.46	21.70	16.30	18.70	13.80
November	.76	.70	.50	.47	20.10	16.70	17.00	13.90
December	.85	.83	.51	.51	20.20	17.00	18.00	14.80
Average	.547	.578	.448	.392	15.29	13.90	13.33	11.69
1935								
January	.85	.82	.51	.50	19.50	16.80	17.80	14.40
February	.82	.80	.51	.50	20.00	16.60	18.30	14.20
March	.79	.76	.50	.48	19.00	15.30	17.00	13.50
April	.81	.81	.50	.48	18.00	15.70	16.90	15.50
May	.82	.80	.45	.43	17.60	15.30	16.00	13.30
June	.82	.79	.40	.35	16.50	13.10	13.50	11.40
July	.82	.79	.35	.29	8.80	9.10	8.60	7.40
August	.79	.78	.27	.24	7.30	8.70	6.90	7.40
September	.77	.75	.25	.24	7.50	8.30	6.20	7.10
October	.77	.74	.27	.24	7.20	8.40	6.20	6.80
November	.57	.50	.24	.24	7.00	9.00	6.60	7.90
December	.50	.45	.25	.24	7.10	8.80	6.65	7.80
Average	.761	.732	.375	.352	12.96	12.09	11.72	10.39

Table 13.- LA PORTE COUNTY, INDIANA; Prices paid for corn, oats, alfalfa, and clover hay in Michigan and Indiana, by months, 1936-1937 -Continued

Year and month	Corn per bushel		Oats per bushel		Alfalfa hay per ton		Clover hay per ton	
	Michigan	Indiana	Michigan	Indiana	Michigan	Indiana	Michigan	Indiana
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1936								
January	.52	.46	.26	.24	7.10	8.90	6.70	7.80
February	.52	.48	.27	.25	7.30	9.40	6.50	8.00
March	.52	.48	.26	.25	6.70	8.80	6.10	8.10
April	.52	.49	.26	.23	6.90	8.30	6.30	8.10
May	.53	.53	.26	.23	6.80	8.10	5.90	7.10
June	.53	.57	.26	.22	7.90	8.00	7.50	7.20
July	.76	.79	.34	.31	8.80	9.60	8.10	8.30
August	1.01	1.02	.42	.41	10.60	14.80	9.60	12.70
September	1.00	1.03	.43	.41	11.40	14.90	10.40	13.40
October	.97	.93	.43	.40	11.60	14.00	9.50	13.00
November	.95	.87	.44	.41	12.00	15.00	10.50	13.70
December	.96	.92	.48	.45	12.00	15.20	10.40	13.70
Average	.732	.714	.342	.318	9.09	11.29	8.12	10.09
1937								
January	1.00	.99	.54	.50	12.00	15.30	10.50	13.10
February	1.00	1.01	.54	.51	12.50	15.80	11.30	13.90
March	1.00	1.02	.54	.50	12.20	16.30	10.30	14.60
April	1.17	1.21	.55	.53	11.80	17.00	10.30	15.50
May	1.21	1.21	.55	.51	12.50	17.60	11.20	15.40
June								
July								
August								
September								
October								
November								
December								
Average								

1/ Interpolated.

2/ Clover and timothy mixed beginning January 1937.

Compiled from reports of the Bureau of Agricultural Economics.

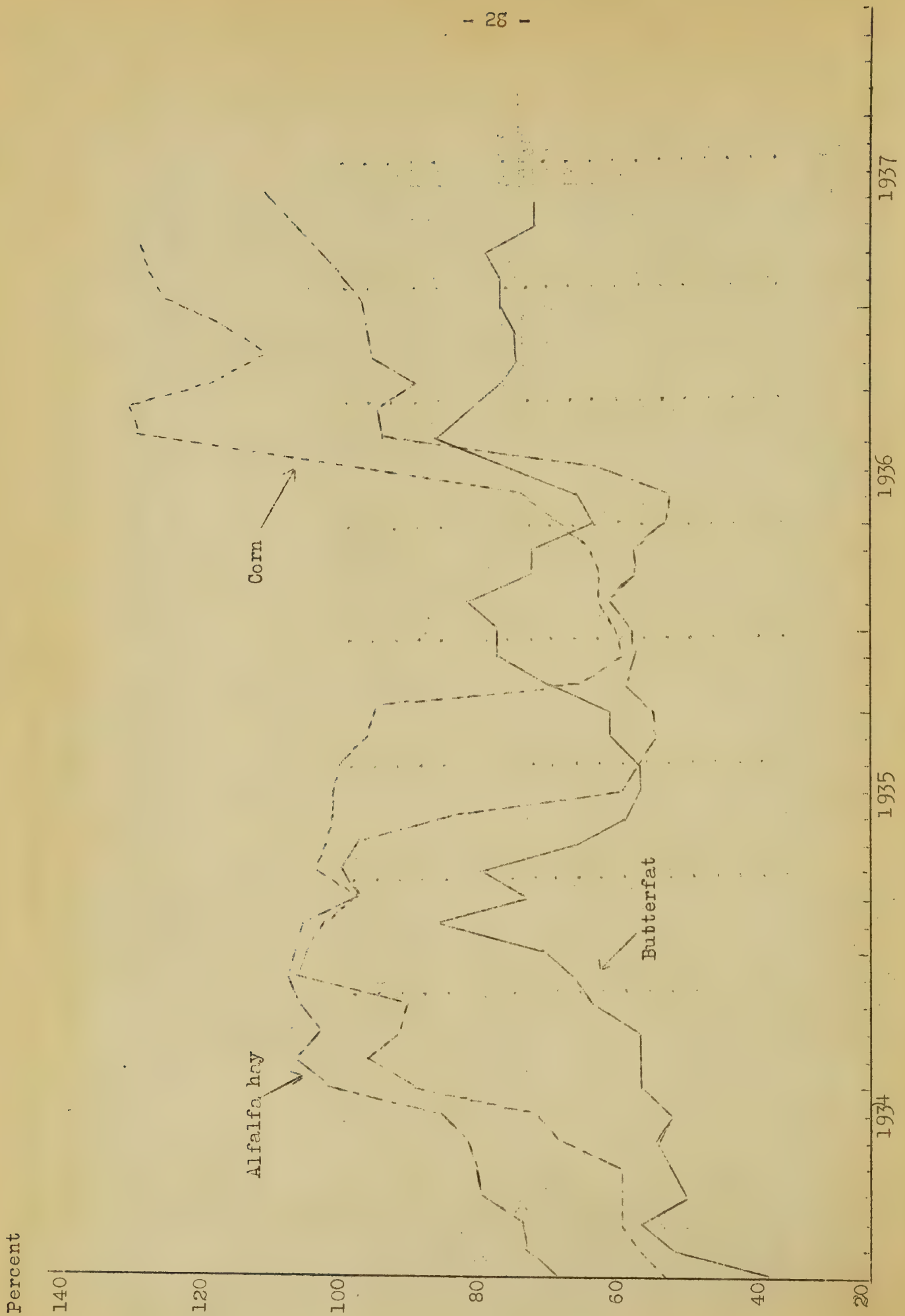


Figure 1.- Index numbers of prices received by farmers for butterfat, corn and alfalfa hay in Indiana, 1934-1937 (1923-1929 = 100)

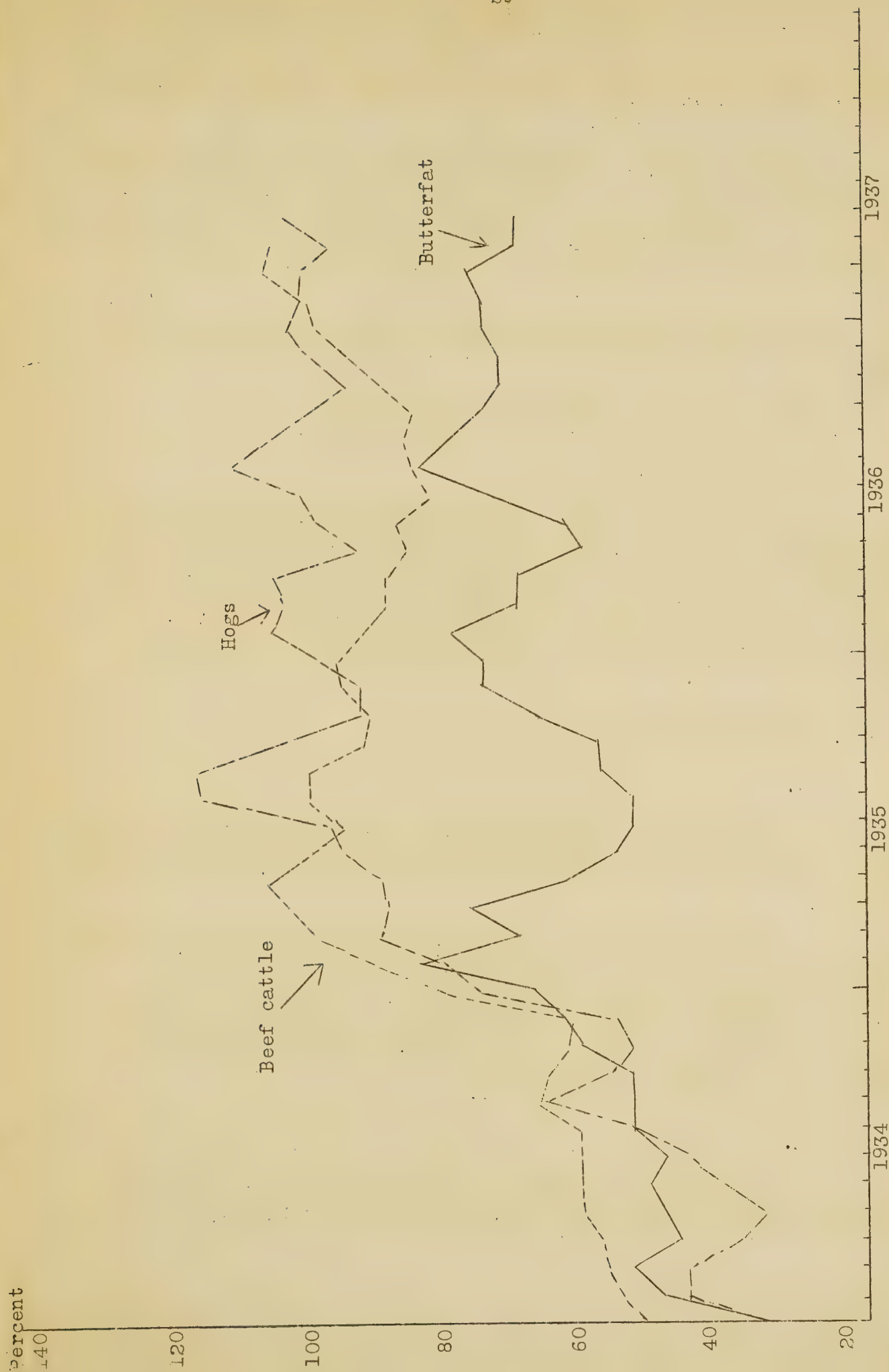


Figure 2.- Index numbers of prices received by farmers for butterfat, beef cattle and hogs in Indiana, 1934-1937 (1923-1929 = 100)

9 months. Seasonal variation in total milk handled as among individual handlers did not vary greatly.

For each handler, during the 9-month period for which information was available, the high point of seasonal variation was May 1937. The low point in variation among individual handlers varied between November 1936 and February 1937. The index of variation for those handlers whose low point in variation was February differed only slightly from their indices for November.

These data indicate that handlers in the La Porte County Marketing Area are quite similar with respect to seasonal variation of milk handled.

G. Channels through which milk moves to market.

1. Transportation

The entire supply of the La Porte County market comes from within a radius of 25 miles. There are no country stations and all the milk is trucked into the marketing area. The prevailing rate charged for transportation is 25 cents per hundredweight regardless of the distance covered whenever milk is hauled by a dealer or independent hauler. However, the general practice with respect to transportation from farm to plant is for the farmer or farmer groups to haul their own milk to the marketing area.

H. Marketing organizations

1. Producers' organization

Members of the La Porte County Milk Producers' Association, organized in January 1932, furnish nearly 90 percent of the supply of the La Porte County market, and constitute the only producers' association in the market.

The organization in the beginning had 135 members. At the present time the members number approximately 165, about 10 of whom reside on the Michigan side of the supply area. The association is strictly a bargaining association of producers. It maintains no plant nor does it physically handle milk at any time. During the depression years and to the present it has served as the chief representative of producers in the La Porte County market.

2. Handlers in the La Porte County, Indiana, Marketing Area

There are 10 handlers of milk in the La Porte County Marketing Area buying milk from producers. In addition, there are 22 producer-handlers who handle approximately 11 percent of the milk on the

market. The 3 largest handlers in the marketing area distribute 72.3 percent of the Class I milk, 91.7 percent of the Class II milk, and 63.4 percent of the Class III milk. Although producer-handlers distribute 11 percent of the milk sold in the market they do not appear to be a strong competitive or disturbing factor in the market.

PART IV

Demand Conditions in the La Porte County, Indiana, Marketing Area

A. Business conditions - purchasing power of consumers

Employment in all industries, as indicated by the index of such employment in Michigan in December 1936 and January 1937, was 156.4 and 147.2 percent, respectively, of the employment in November 1931. Employment in Michigan reached the highest peak since November 1931 in December 1936. (See table 14.)

Pay roll totals in all industries in Michigan, as indicated by the index number of such pay roll totals, also show an upward trend since November 1931. Pay rolls in December 1936 were at the highest point since November 1931, being 119.4 percent above the November 1931 level. In March 1937 pay rolls were 118.4 percent above the level of November 1931. (See table 15.)

Employment in Indiana industries, as indicated by the index of such employment, also reached the highest peak since November 1931 in December 1936, when employment was 133.1 percent of employment in November 1931. (See table 16.)

Pay roll totals in Indiana industries have risen markedly since November 1931 and in December 1936 were 169.5 percent of such totals in November 1931. (See table 17.)

The index of the cost of goods purchased by wage earners and low salaried workers in this region has increased somewhat since 1933 to offset, to a small extent, the increase in employment and pay roll totals. However, the worker in Michigan and in Indiana is in a much better economic condition now than he has been for the last five years. (See table 18.)

Table 19 shows the number of families on relief in La Porte County, Indiana, during 1936 and the first four months of 1937.

During the first four months of 1937 the number of persons on relief was only 61 percent of the total number who received relief aid during the corresponding months of 1936. In the same months of this year the total expenditure for relief dropped to 74 percent of the amount spent for similar purposes in 1936.

As indicated by the Monthly Review of Agricultural, Trade, and Financial Conditions, published by the Federal Reserve Bank of Chicago,

Table 14.- MICHIGAN: Index of employment totals in all industries
Compiled from reports of the Bureau of Labor Statistics
(November 1931 = 100)

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1931											100.0	111.9	
1932	113.1	115.7	113.8	109.0	109.8	111.2	107.8	100.4	92.4	83.8	89.2	95.1	103.4
1933	98.3	97.0	89.6	86.3	92.0	99.0	108.8	114.9	118.7	109.5	103.8	113.4	102.6
1934	124.7	110.2	121.0	125.7	128.4	122.6	114.3	111.4	104.2	99.9	99.7	118.2	115.0
1935	126.9	133.6	135.0	135.8	134.5	129.0	124.8	122.4	118.5	132.2	138.0	139.8	130.9
1936	137.2	135.1	135.2	137.6	139.3	138.9	137.0	129.2	127.2	139.4	149.3	156.4	138.5
1937	147.2	149.7	150.7	154.2 ^{1/}									

^{1/} Preliminary.

Table 15.- MICHIGAN: Index of payroll totals in all industries

(November 1931 = 100)

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1931											100.0	105.7	
1932	102.4	110.8	109.1	102.9	119.1	109.7	102.8	85.9	62.0	68.9	79.6	85.8	94.9
1933	89.6	81.1	72.4	77.2	96.2	102.5	107.4	120.8	119.0	109.4	101.1	110.3	98.9
1934	126.0	154.8	170.7	178.5	177.0	164.8	149.3	156.7	138.1	131.5	132.1	159.8	153.3
1935	170.8	186.4	187.9	190.4	186.1	173.9	168.6	168.8	166.0	188.8	200.1	201.4	182.4
1936	187.5	172.3	182.1	193.4	196.1	193.7	188.3	177.6	174.2	196.7	212.9	219.4	191.2
1937	202.3	211.7	218.4	222.0 ^{1/}									

^{1/} Preliminary.

Compiled from reports of the Bureau of Labor Statistics.

Table 16. INDIANA.- Index of employment totals in all industries
(November 1931 = 100)

Computed from reports of the Bureau of Labor Statistics

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1931											100.0	100.5	
1932	96.9	95.4	94.3	88.7	83.3	83.0	78.2	78.4	85.2	84.2	83.2	82.0	86.1
1933	78.3	78.8	70.2	78.6	81.7	90.3	96.9	101.0	111.6	114.1	108.9	106.0	93.0
1934	103.6	107.6	112.4	115.1	111.9	114.8	110.7	111.0	112.2	108.6	104.6	108.2	110.1
1935	105.7	107.0	110.2	110.8	110.5	110.8	109.8	114.2	117.3	114.9	116.1	118.1	112.1
1936	115.9	116.2	117.7	119.5	121.9	125.0	122.5	126.4	129.7	131.6	130.5	133.1	124.2
1937	126.7	130.8	131.0	133.9 ^{1/}									

^{1/} Preliminary.

Table 17. INDIANA.- Index of pay roll totals in all industries
(November 1931 = 100)

Computed from reports of the Bureau of Labor Statistics.

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1931											100.0	101.7	
1932	95.2	92.9	91.0	78.4	74.9	67.2	57.3	56.9	62.3	65.9	64.7	65.6	72.7
1933	61.8	60.7	46.1	60.2	71.0	81.0	85.8	93.7	99.8	106.8	106.1	102.7	81.3
1934	100.8	110.6	119.3	124.0	116.4	121.7	112.0	111.8	109.9	110.8	108.6	117.8	113.6
1935	117.3	120.1	126.8	127.3	126.8	124.9	119.0	128.8	133.0	135.2	136.9	142.9	128.2
1936	136.5	137.8	144.5	147.1	149.8	152.1	144.5	151.2	153.0	161.6	163.4	169.5	150.9
1937	158.6	167.4	171.3	178.1 ^{1/}									

^{1/} Preliminary.

Table 18.- CHICAGO, ILLINOIS.- Index of cost of goods purchased by wage earners and lower salaried workers
(Average 1923-25 = 100)

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1926						102.9						102.9	
1927						102.6						100.2	
1928						99.0						99.3	
1929						98.9						99.7	
1930						97.8						93.5	
1931						88.0						84.4	
1932						77.1						73.4	
1933						70.7						72.4	
1934						72.7					73.5		
1935			76.2				76.0			76.1			
1936	76.7		80.0	76.2			77.6		78.4			78.6	
1937													

Compiled from reports of the United States Bureau of Labor Statistics.

Table 19.- Number of persons on relief and expenditures for relief purposes, La Porte County, Indiana, January 1936-April 1937

Year and month	Number of cases	Number of persons	Total amount
			<u>Dollars</u>
1936			
January	1,653	6,244	30,705.18
February	1,513	5,734	26,550.14
March	1,222	4,539	21,357.51
April	1,010	3,600	18,014.74
May	770	2,576	13,302.45
June	767	2,492	13,216.57
July	762	2,398	13,903.21
August	756	2,445	12,637.29
September	881	3,174	15,474.46
October	928	3,201	16,778.38
November	942	3,142	17,614.70
December	979	3,289	19,025.39
1937			
January	1,028	3,467	19,947.20
February	983	3,324	18,587.51
March	918	3,012	17,931.25
April	779	2,511	15,571.43

Compiled from reports of the Governor's Commission on Unemployed Relief.

general business conditions in the Seventh Federal Reserve District showed a measurable improvement in the first two months of 1937 as compared with a similar period in 1936. Department store trade for the year 1936 was 14 percent larger than in 1935. Wholesale grocery sales in 1936 were only one percent above the level of the previous year, but other wholesale lines, such as drugs, hardware, and electrical supplies, gained 9, 25, and 33 percent, respectively.

The value of total new building contracts awarded in 1936 was considerably above (46 percent) the value of contracts awarded in 1935. Much of the area surrounding La Porte County, Indiana, is agricultural and so the income of the marketing area is closely related to the income of the rural community surrounding it. The farmers' conditions in the area have been considerably better in recent months because of a sharp advance in prices of farm products and heavy marketings of livestock.

Agricultural incomes of farmers in States partly or entirely within the Seventh Federal Reserve District^{6/} were 16.5 percent greater in 1936 than in 1935, and were considerably higher than the average for the 4-year (1932-1935) period.

Thus it appears that the demand for milk should, with the continuance of better times, be considerably strengthened.

B. The sales of fluid milk and cream

It is difficult to secure a complete quantitative picture of the class sales of milk in the La Porte County market. In addition to the fact that the milk of a varying number of handlers is included in the recorded market totals of sales, records in the market go back only to September 1936. However, in table 20 are presented the monthly sales in the marketing area of handlers reporting to the Indiana Milk Control Board since September 1936. Approximately 691,000 pounds of milk were used monthly as Class I in the La Porte County market, about 109,000 pounds were sold as Class II, and nearly 72,000 pounds were distributed as Class III milk.

There is a close similarity among handlers in the marketing area as to their seasonal variations in Class I milk. It has been observed also that the proportion of Class I milk is divided among handlers in nearly the same ratio as are divided the total quantities of milk which are handled by them. For example, three handlers who handle 30.5 percent of all milk in the market handle 29.5 percent of the Class I milk; three other handlers who distribute 60.6 percent of total milk in the market sell 61.3 percent of the Class I milk, and a third group of three handlers who have 8.9 percent of the total milk in the market distribute 9.2 percent of the Class I milk.

^{6/} Estimate of the United States Department of Agriculture.

Table 20.- Net reported Class I, Class II, and Class III milk and Percentage of total sales in each class of certain handlers in the La Porte, Indiana, marketing area, by months, September 1936 - April 1937

Period	Number of handlers reporting	Class I		Class II		Class III		Total sales
		Sales	Percent of total	Sales	Percent of total	Sales	Percent of total	
		<u>Pounds</u>		<u>Pounds</u>		<u>Pounds</u>		<u>Pounds</u>
1936								
September	7	709,607	74.00	170,829	17.81	78,527	8.19	958,963
October	8	649,209	76.50	124,814	14.71	74,575	8.79	848,598
November	9	670,958	83.64	77,563	9.67	53,714	6.69	802,235
December	7	691,564	84.13	74,543	9.07	55,877	6.80	821,984
1937								
January	7	687,919	79.36	101,503	11.71	77,367	8.93	866,789
February	8	644,940	79.14	97,532	11.97	72,413	8.89	814,885
March	8	736,405	77.82	111,006	11.73	98,932	10.45	946,343
April	6	738,976	80.50	115,857	12.62	63,106	6.88	917,939
Totals		5,529,578	79.25	873,647	12.52	574,511	8.23	6,977,736

Compiled from information submitted by the Indiana State Milk Control Board.

There is also a marked relationship between the proportions of milk used in the lower classes and the total quantities of milk handled by handlers.

C. Sanitation requirements

Four grades of raw milk and three grades of pasteurized milk are provided for in the City of La Porte Milk Ordinance No. 545, passed in 1930.

Raw milk.

1. Grade "A" raw milk must contain not more than 50,000 bacteria per cubic centimeter, and must be produced on dairy farms conforming with all the items of sanitation included in the health regulations for milk.
2. Grade "B" raw milk must contain not more than 200,000 bacteria per cubic centimeter. It must also be produced on farms conforming to all the items of sanitation required for Grade "A" raw milk, except that the cooling temperature shall be changed from 60° to 70° F.
3. Grade "C" raw milk must contain not more than 1,000,000 bacteria per cubic centimeter prior to time of delivery and must be produced on dairy farms conforming with all items of sanitation required for Grade "B" raw milk, except that a tuberculin test of cows producing Grade "C" raw milk is not necessary.
4. Grade "D" raw milk is milk which does not meet the requirements of Grade "C" raw milk.

Pasteurized milk.

1. Grade "A" pasteurized milk is Grade "A" or Grade "B" raw milk which has been pasteurized, cooled, and bottled in conformance with all items of sanitation covering pasteurizing, cooling, and bottling, and which at no time after pasteurization and until delivery does the average bacterial count exceed 30,000 per cubic centimeter.
2. Grade "B" pasteurized milk is Grade "C" raw milk which has been pasteurized, cooled, and bottled in a milk plant conforming with all of the requirements for Grade "A" pasteurized milk.
3. Grade "C" pasteurized milk is pasteurized milk which does not meet the requirements of Grade "B" pasteurized milk.

All milk and cream sold in the city of La Porte must be produced under the health regulations as defined in the milk ordinance. In the case of cream, however, the bacterial standard is double that established for milk.

The grading of buttermilk and cultured buttermilk is identical with the grading of milk, except that the bacterial standard is omitted.

Regulations are set forth as to the establishment and cleanliness of stables, utensils, milk houses, methods of milking, cooling, water supply, employees, and the conditions of cleanliness in the dealers' plants, on wagons, and in retail stores.

Tuberculin tests of cattle and plate count tests of milk are made regularly by the health authorities.

Producers delivering to Michigan City, Indiana, are required to produce and deliver milk in conformance with health requirements as set up by the Indiana State Board of Health. These requirements are essentially the same as those set forth for the city of La Porte.

D. Alternative outlets for dairy products produced in the La Porte County, Indiana, supply area.

Figure 3 shows the locations of creameries, cheese factories, and condenseries in the area supplying milk to the La Porte County market.

The proximity of numerous alternative outlets for milk indicates that there is a strong alternative market in manufactured dairy products for the milk which is produced for the La Porte County market. Also, there are alternative fluid milk markets, such as South Bend and Gary, Indiana, and Chicago, Illinois, which draw their supplies from territories adjoining and overlapping the supply area for La Porte County.

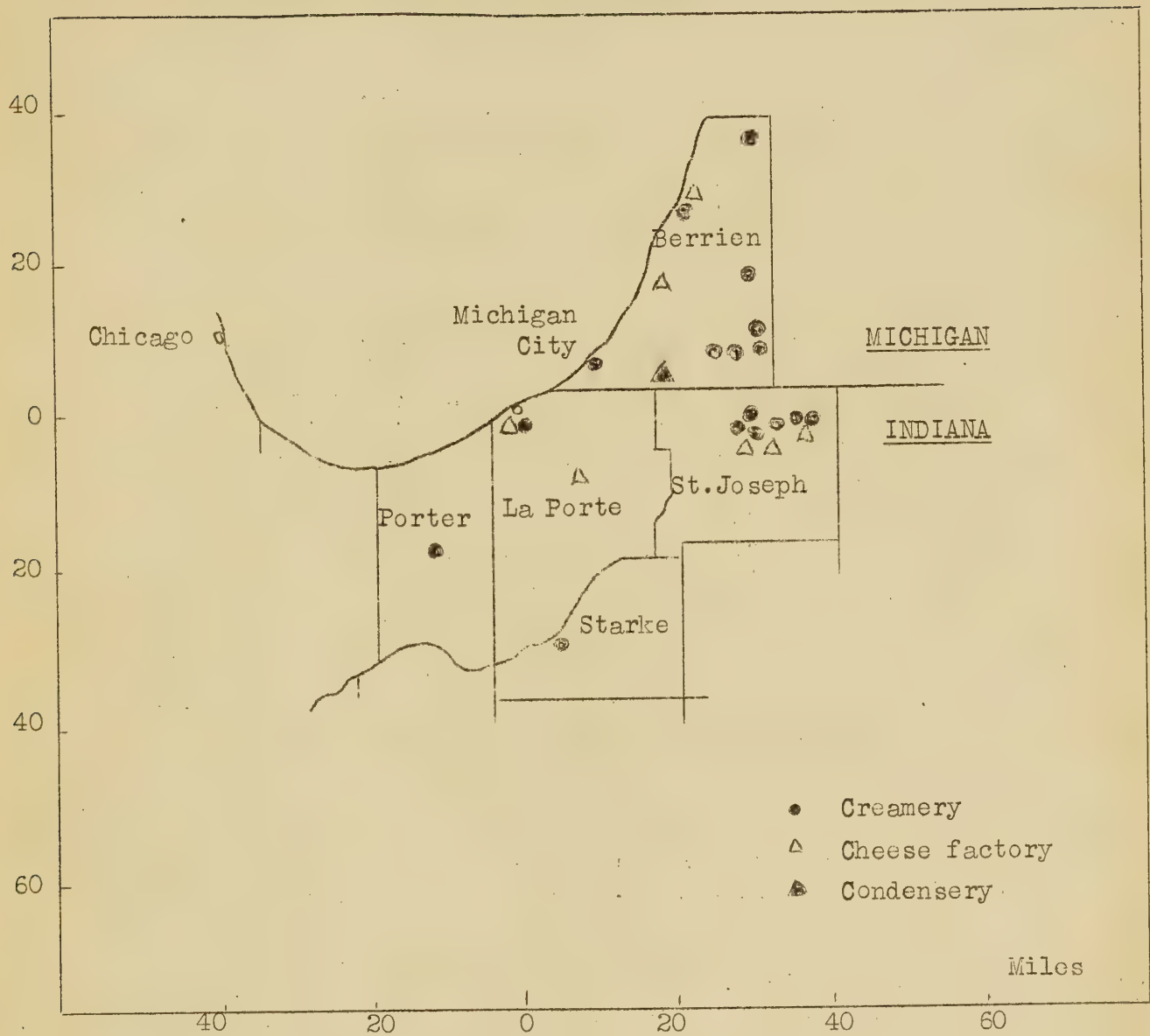


Figure 3. Location of manufacturing plants in the La Porte County (Michigan City), Indiana supply area

PART V

Prices in the LaPorte County, Indiana, Marketing Area

A. Purchasing power of milk prices

Any price for milk that is fixed in the LaPorte County marketing area must be fixed with respect to the entire supply of milk delivered to the marketing area if the purchasing power of producers is to be maintained and marketing conditions are to be stabilized in accordance with the policy of the Agricultural Marketing Agreement Act of 1937.

The prices established in the proposed marketing agreement and proposed order are significant with respect to the purchasing power of milk only as they are related to the price of commodities which the farmer must buy. Consequently, a comparison of the prices set forth in the proposed marketing agreement and proposed order and their purchasing power with the prices and purchasing power of milk during a normal period for milk producers (August 1919 - July 1929) is helpful in determining that the prices set forth are reasonable. In making this comparison an index of prices paid for commodities bought, as established by the United States Department of Agriculture, was used. With the use of this index and data on milk prices, it was determined that under similar conditions of production a Class I price of \$2.47 per hundredweight in May 1937 would have given producers a purchasing power for Class I milk equivalent to the purchasing power of Class I milk during the period of normalcy, August 1919-July 1929. Under similar conditions of production, Class II and Class III prices of \$1.83 and \$1.53 per hundredweight in May 1937 would have given milk sold in these classes a purchasing power equivalent to that of milk sold in such classes during the period, August 1919-July 1929. In computing the above prices, it was necessary to construct classified prices, since flat prices were the only prices available during 1919-1929 in this area. (See tables 21, 22, 23.) Because no series of prices paid producers in LaPorte County during 1919-1929 exists, the prices paid in the adjoining market of South Bend during that period were used in constructing classified prices. The milksheds of LaPorte County and South Bend overlap and many producers in LaPorte County ship milk to South Bend. Prices paid producers in the two markets have been comparable over a long period. The formulas for Class II and Class III milk used in computing the classified price series represent the values of milk used in those classes during the base period 1919-1929. (See table 24 and figure 4.) The classification of milk used for purposes of determining the classified price series was that which prevailed under State regulation from September 1936 through April 1937.

Such a comparison is used as a guide in establishing prices. Conditions under which milk has been produced since 1919 in LaPorte County have differed markedly from time to time. Health regulations have changed over a period of years. The varying conditions under which milk has been

Table 21.-- LA PORTE COUNTY, INDIANA: Fluid milk prices. Estimated ^{1/} prices which handlers would have paid for 4.0% Class I ^{2/} milk, per hundredweight, f.o.b. city

Computed by the Dairy Section

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1919	4.07	3.92	3.49	3.38	3.40	3.54	3.59	4.17	4.13	4.04	3.99	4.06	3.82
1920	4.13	3.74	3.41	3.16	3.37	3.14	3.64	4.29	4.25	4.25	3.85	3.56	3.73
1921	3.47	2.92	2.93	2.96	2.62	2.59	2.86	2.84	1.91	2.25	2.26	2.26	2.66
1922	2.37	2.35	1.93	1.97	1.99	2.11	2.44	2.76	2.70	2.64	2.57	2.53	2.36
1923	2.56	2.57	2.58	2.63	2.68	2.70	2.71	3.03	3.00	2.98	2.99	2.90	2.78
1924	2.92	2.95	3.06	3.07	3.16	3.14	3.15	3.11	3.23	3.16	3.10	3.10	3.10
1925	3.14	3.07	3.04	2.97	2.99	2.98	2.98	2.98	2.93	2.89	2.89	2.98	2.99
1926	2.97	2.97	2.98	3.02	3.01	3.01	3.02	3.00	2.97	2.93	2.90	2.82	2.97
1927	2.87	2.87	3.02	2.83	2.83	2.85	2.85	2.83	2.79	2.78	2.75	2.74	2.83
1928	2.77	2.79	2.76	2.82	2.81	2.82	2.81	2.86	2.77	2.85	2.82	2.82	2.81
1929	2.85	2.89	2.83	2.88	2.90	2.90	2.77	2.90	2.87	2.92	2.95	3.01	2.89
1930	3.44	3.25	3.04	3.04	2.95	2.65	2.63	2.65	2.77	2.84	2.82	2.67	2.90
1931	2.71	2.14	2.06	2.12	2.08	2.08	2.06	2.02	2.03	2.06	2.18	2.18	2.15
1932	2.19	2.15	2.14	2.12	1.95	1.96	2.07	2.04	2.10	2.04	2.01	2.01	2.06
1933	1.86	1.81	1.81	1.79	1.70	1.70	1.68	1.72	1.88	2.00	2.01	1.99	1.83
1934	1.99	1.93	1.92	1.57	1.68	1.67	1.74	1.77	1.86	1.90	1.87	1.86	1.81

^{1/} Calculated by relating the estimated Class II and Class III prices to the estimated percentages in each class, Class I = 79%; Class II = 13%; Class III = 8%; - and assuming the Class I price to be the amount necessary to give the average prices as reported by the Bureau of Agricultural Economics, Division of Dairy and Poultry Products for the South Bend area.

^{2/} Class I includes all milk sold or distributed as milk and all milk used to produce cream for consumption as cream and all milk not specifically accounted for as Class II or Class III milk.

Table 22.-- LA PORTE COUNTY, INDIANA: Fluid milk prices. Estimated ^{1/} prices which handlers would have paid for 4.0%, Class II ^{2/} milk, per hundredweight, f.o.b. city

Computed by the Dairy Section

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1919	2.89	2.39	2.57	2.96	2.72	2.46	2.47	2.56	2.74	3.06	3.31	3.26	2.51
1920	3.00	3.01	3.17	3.08	2.74	2.64	2.65	2.60	2.71	2.75	2.56	2.46	2.51
1921	2.32	2.24	2.23	2.10	1.42	1.54	1.58	1.93	1.99	2.16	2.11	2.09	2.00
1922	1.66	1.76	1.51	1.76	1.65	1.70	1.66	1.62	1.55	2.12	2.40	2.56	1.53
1923	2.41	2.40	2.36	2.15	1.94	1.86	1.84	2.06	2.20	2.26	2.47	2.57	2.21
1924	2.51	2.36	2.20	1.79	1.75	1.88	1.82	1.75	1.76	1.79	2.04	2.04	1.98
1925	1.56	1.92	2.29	2.06	1.96	2.03	2.03	2.00	2.22	2.36	2.38	2.25	2.12
1926	2.06	2.06	1.99	1.84	1.90	1.88	1.85	1.92	2.06	2.21	2.35	2.52	2.05
1927	2.30	2.42	2.36	2.32	1.99	1.94	1.92	1.99	2.16	2.22	2.32	2.42	2.20
1928	2.24	2.18	2.32	2.11	2.09	2.06	2.10	2.20	2.26	2.23	2.34	2.35	2.21
1929	2.23	2.36	2.29	2.12	2.02	2.04	1.98	2.04	2.16	2.11	1.98	1.88	2.10
1930	1.63	1.59	1.79	1.79	1.62	1.54	1.66	1.82	1.84	1.81	1.62	1.46	1.69
1931	1.31	1.31	1.38	1.16	1.07	1.07	1.14	1.31	1.45	1.55	1.43	1.40	1.30
1932	1.10	1.04	1.06	.91	.82	.78	.85	.94	.96	.95	1.06	1.09	.96
1933	.90	.85	.55	.95	1.04	1.07	1.14	.98	1.09	1.10	1.08	.90	1.00
1934	.92	1.16	1.13	1.03	1.12	1.16	1.14	1.26	1.19	1.25	1.39	1.42	1.19

^{1/} Four times Chicago 92-score butter, plus 20 percent.

^{2/} Class II includes all milk in the form of chocolate milk or chocolate drink or other flavored milk or milk drink, buttermilk, cottage cheese, condensed milk, evaporated milk, powdered milk, and milk the cream from which is used in the manufacture of ice cream or ice cream mix, or stored for the purpose of making ice cream mix.

Table 23.- LA PORTE COUNTY, INDIANA: Fluid milk prices. Estimated^{1/} prices which handlers would have paid for 4.0 percent Class III^{2/} milk, per hundredweight, f.o.b. city

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1919	2.41	1.99	2.39	2.47	2.27	2.05	2.06	2.13	2.28	2.57	2.76	2.72	2.34
1920	2.50	2.51	2.64	2.57	2.28	2.20	2.21	2.17	2.26	2.29	2.38	2.05	2.34
1921	1.93	1.87	1.86	1.75	1.18	1.28	1.57	1.61	1.66	1.80	1.76	1.74	1.67
1922	1.38	1.47	1.51	1.47	1.38	1.42	1.38	1.35	1.57	1.77	2.00	2.13	1.57
1923	2.01	2.00	1.97	1.79	1.62	1.55	1.53	1.72	1.83	1.88	2.06	2.14	1.84
1924	2.09	1.98	1.83	1.49	1.48	1.57	1.52	1.46	1.47	1.49	1.70	1.70	1.65
1925	1.55	1.60	1.91	1.72	1.63	1.69	1.69	1.67	1.85	1.97	1.98	1.90	1.76
1926	1.72	1.72	1.66	1.53	1.58	1.57	1.54	1.60	1.72	1.84	1.96	2.10	1.71
1927	1.92	2.02	1.97	1.93	1.66	1.62	1.60	1.66	1.80	1.85	1.93	2.02	1.83
1928	1.87	1.82	1.93	1.76	1.74	1.72	1.75	1.83	1.88	1.86	1.95	1.96	1.84
1929	1.86	1.97	1.91	1.77	1.68	1.70	1.65	1.70	1.80	1.76	1.65	1.57	1.75
1930	1.40	1.41	1.49	1.49	1.35	1.28	1.38	1.52	1.53	1.51	1.35	1.22	1.41
1931	1.09	1.09	1.15	.97	.89	.89	.95	1.09	1.21	1.29	1.19	1.17	1.08
1932	.92	.87	.88	.76	.68	.65	.71	.78	.80	.79	.88	.91	.80
1933	.75	.71	.71	.79	.87	.89	.95	.82	.91	.92	.90	.75	.83
1934	.77	.97	.98	.90	.93	.97	.95	1.05	.99	1.04	1.16	1.18	.99

Computed by Dairy Section, A. A. A.

^{1/} Four times Chicago 92-score butter.

^{2/} The quantity of milk purchased, sold, used, or distributed, by distributors, in excess of Class I and Class II milk.

Table 24.-- LA PORTE COUNTY, INDIANA: Index of prices paid by farmers for commodities bought, prices paid for 4.0 percent milk, per hundredweight, f.o.b. city, and parity prices; average August 1919 - July 1929, by years 1933-1936, and by months January - May, 1937

Year and Month	Index of prices paid by farmers for commodities bought	Prices paid for 4.0% milk, per hundredweight, f.o.b. city					
		Class I <u>1/</u>		Class II <u>2/</u>		Class III <u>3/</u>	
		Prices paid <u>4/</u>	Parity prices	Prices paid <u>4/</u>	Parity prices	Prices paid <u>4/</u>	Parity prices
Average	Percent	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
August 1919- July 1929	100.0	2.96 ^{5/}		2.19 ^{6/}		1.83 ^{7/}	
1933	68.0		2.01		1.49		1.24
1934	76.7		2.27		1.68		1.40
1935	78.0		2.31		1.71		1.43
1936	77.4		2.29		1.70		1.42
1937							
January	81.1	2.60	2.40	1.76	1.78	1.45	1.48
February	82.4	2.60	2.44	1.77	1.80	1.47	1.51
March	82.4	2.60	2.44	1.85	1.80	1.54	1.51
April	83.6	2.60	2.47	1.65	1.83	1.37	1.53
May	83.6	2.60	2.47	1.61	1.83	1.33	1.53

1/ Class I includes all milk sold or distributed as milk and all milk used to produce cream for consumption as cream and all milk not specifically accounted for as Class II or Class III milk.

2/ Class II includes all milk in the form of chocolate milk or chocolate drink or other flavored milk or milk drink, buttermilk, cottage cheese, condensed milk, evaporated milk, powdered milk and milk the cream from which is used in the manufacture of ice cream or ice cream mix, or stored for the purpose of making ice cream mix.

3/ Class III includes all milk sold, used or distributed in excess of Class I or Class II.

4/ Compiled from reports of the Indiana State Milk Control Board.

5/ Calculated by relating the estimated Class II and Class III prices to the estimated percentages in each class, Class I - 79%; Class II - 13%; Class III - 8%; and assuming the Class I price to be the amount necessary to give the average South Bend, Indiana, Prices as reported by the Bureau of Agricultural Economics Division of Dairy and Poultry Products.

6/ Four times Chicago 92-score butter, plus 20 percent.

7/ Four times Chicago 92-score butter.

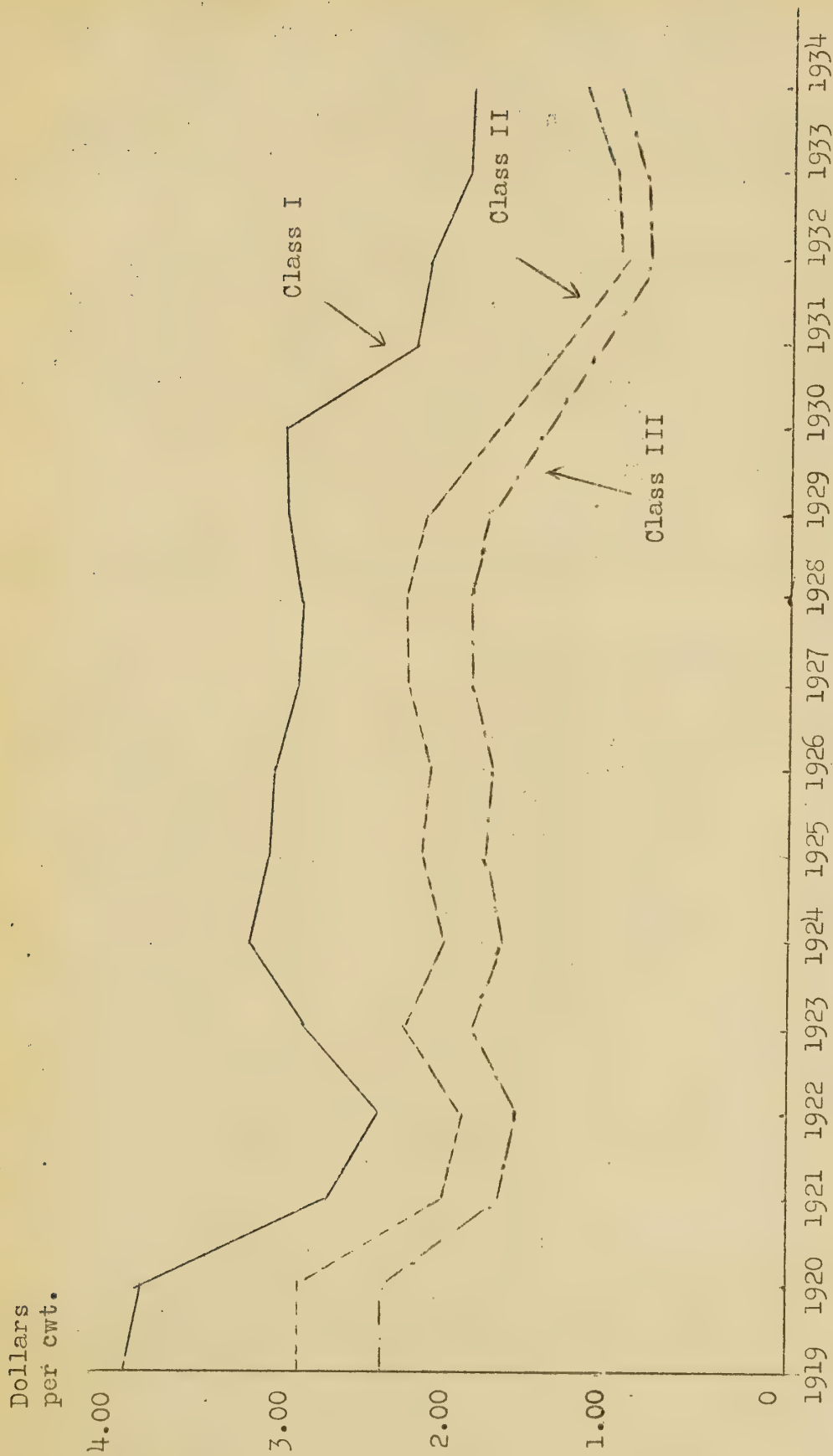


Figure 4.- Estimated prices which handlers would have paid for Class I, Class II, and Class III milk per hundredweight, f.o.b. city, LA PORTE COUNTY, INDIANA, 1919-1934

produced and supply circumstances of local character such as the prevalence of drought or flood makes impossible a close comparison of milk prices and purchasing power at present with such prices and purchasing power during the base period.

However, such a comparison does indicate that the prices provided for in the proposed marketing agreement and proposed order will tend to restore to producers in the area a purchasing power equivalent to that which they had during August 1919-July 1929.

The Agricultural Marketing Agreement Act of 1937 recognizes that, by such comparison as is given above, the prices which would apparently restore the purchasing power of milk produced, may not be reasonable in view of the current price of feeds, the available supplies of feed, and other economic conditions which affect supply and demand for milk and its products. When such prices are not reasonable in view of these factors, the Secretary of Agriculture may fix such prices as he finds will reflect such factors, insure a sufficient quantity of pure and wholesome milk, and be in the public interest.

The available information pertaining to the geographical as well as historical price relationships in the LaPorte County marketing area might well be considered.

B. Farm price of milk sold wholesale

The average annual farm prices per hundredweight of milk sold wholesale in the States of Indiana and Michigan for the period 1910-1936 are shown in table 25 and figure 5. Since 1910 the Michigan farm price of all milk sold wholesale has generally been below the corresponding price in Indiana. During this period farm prices reached a high point of \$3.38 per hundredweight in 1919 in Indiana, and \$3.51 per hundredweight in 1919 in Michigan, but declined markedly during the depression of 1921-22 to \$2.03 per hundredweight in Indiana and \$2.11 per hundredweight in Michigan. The farm prices of milk sold wholesale in Indiana and Michigan from 1921-29 never reached the level of the predepression period before 1921 and in 1929 were only \$2.54 and \$2.42 in Indiana and Michigan, respectively. With the beginning of the depression in 1929 and 1930 these prices fell much further and reached a low point of \$1.32 in 1933 in Indiana and \$1.10 in 1932 in Michigan. Since 1933 these prices have increased somewhat, but even in 1936 the price in Indiana was only \$1.90 and in Michigan \$1.83, both prices being much below the average price since 1924.

C. Handlers' buying prices of milk delivered f.o.b. the city

The prices paid by milk handlers for fluid milk of 4.0 percent butterfat test in La Porte County from 1919-1935 are shown in table 26. From the predepression level of \$2.70 per hundredweight in 1929 the fluid milk price fell to its low point of \$1.64 per hundredweight in 1933.

Table 25.- Prices per hundredweight received by producers for all milk sold wholesale in Indiana and Michigan and in the United States, 1910-1936

Year	United States	Indiana	Michigan
	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>
1910	1.61	1.69	1.44
1911	1.55	1.70	1.46
1912	1.62	1.68	1.49
1913	1.64	1.77	1.57
1914	1.63	1.79	1.60
1915	1.61	1.72	1.58
1916	1.76	1.92	1.67
1917	2.42	2.52	2.31
1918	3.04	2.97	3.02
1919	3.33	3.38	3.51
1920	3.24	3.25	3.40
1921	2.33	2.28	2.40
1922	2.13	2.03	2.11
1923	2.50	2.57	2.49
1924	2.25	2.37	2.17
1925	2.39	2.37	2.26
1926	2.41	2.42	2.30
1927	2.53	2.50	2.38
1928	2.55	2.53	2.39
1929	2.55	2.54	2.42
1930	2.23	2.23	2.10
1931	1.70	1.73	1.53
1932	1.28	1.40	1.10
1933	1.31	1.32	1.18
1934	1.55	1.48	1.46
1935	1.72	1.58	1.62
1936	1.89	1.90	1.83

Compiled from reports of the Bureau of Agricultural Economics.

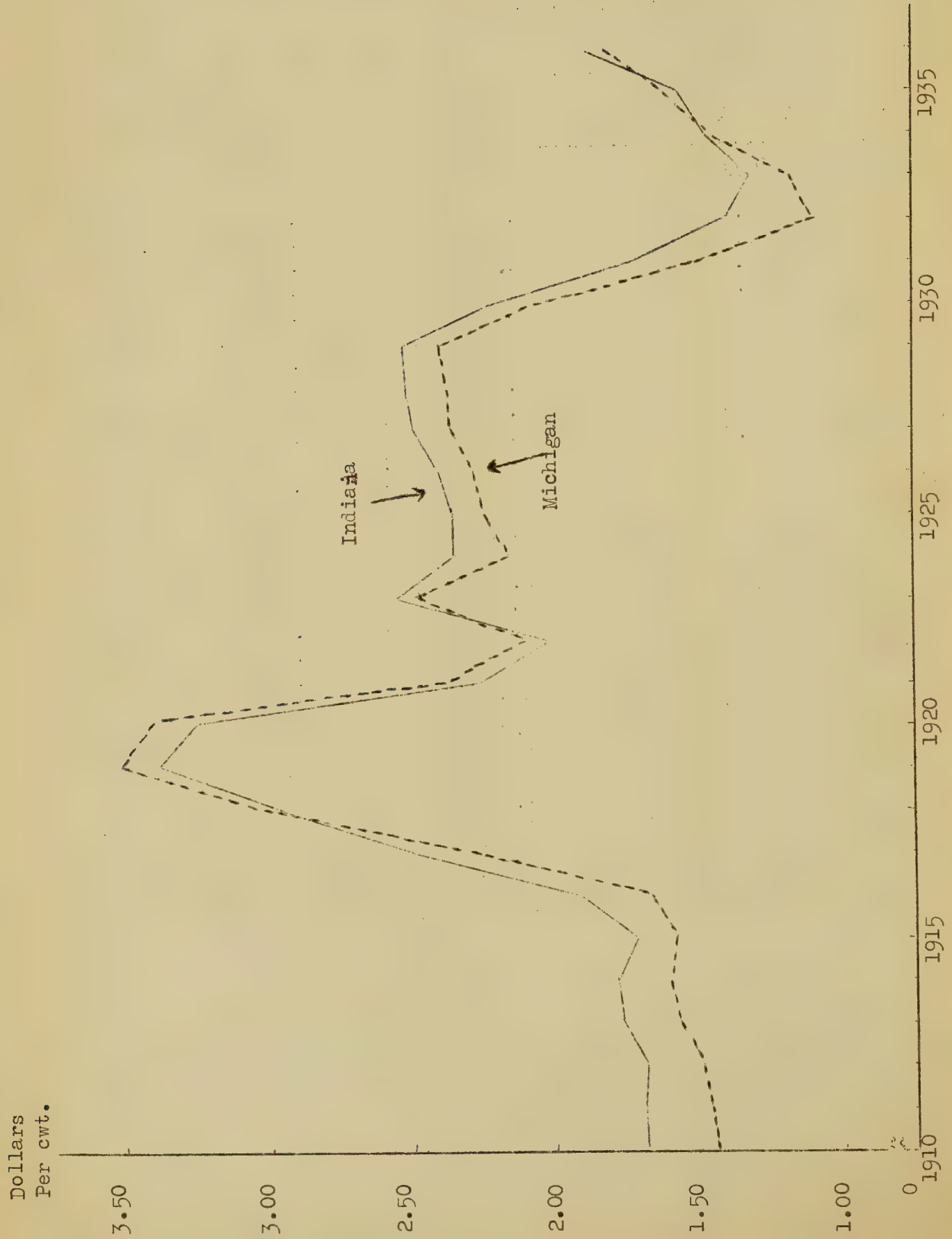


Figure 5.- Farm prices of milk sold wholesale in Indiana and Michigan, 1910-1936

Table 26.-- LA PORTE^{2/} COUNTY, INDIANA: Fluid milk prices. Dealers' buying prices, per hundredweight of 4.0 percent raw milk, delivered f.o.b. city

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1919	3.78	3.57	3.32	3.25	3.22	3.28	3.32	3.80	3.80	3.80	3.80	3.85	3.57
1920	3.85	3.65	3.32	3.10	3.20	3.00	3.40	3.90	3.90	3.90	3.60	3.30	3.50
1921	3.20	2.75	2.75	2.75	2.35	2.35	2.62	2.62	1.90	2.20	2.20	2.20	2.49
1922	2.20	2.20	1.88	1.90	1.90	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.24
1923	2.50	2.50	2.50	2.50	2.50	2.50	2.50*	2.80	2.80	2.80	2.85	2.80	2.63
1924	2.80	2.80	2.85	2.80	2.85*	2.85*	2.85*	2.80*	2.90*	2.85*	2.85*	2.85	2.84
1925	2.85	2.85	2.85	2.75*	2.75*	2.75*	2.75*	2.75*	2.75*	2.75	2.75	2.80	2.78
1926	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.72	2.75
1927	2.72	2.74	2.85	2.69	2.63	2.63*	2.63	2.63	2.63	2.63	2.63	2.64	2.67
1928	2.63	2.63	2.64	2.64	2.63	2.63*	2.63	2.69	2.63	2.69	2.69	2.69	2.65
1929	2.69	2.75	2.69	2.69	2.69	2.69	2.58	2.69	2.69	2.72	2.72	2.75	2.70
1930 ^{2/}	3.05	2.90	2.75	2.75	2.65	2.40	2.40	2.45	2.55	2.60	2.55	2.40	2.62
1931 ^{2/}	2.40	1.95	1.90	1.90	1.85	1.85	1.85	1.85	1.95	1.95	2.00	2.00	1.95
1932 ^{2/}	1.95	1.90	1.90	1.85	1.70	1.70	1.80	1.80	1.85	1.80	1.80	1.80	1.82
1933 ^{2/}	1.65	1.60	1.60	1.60	1.55	1.55	1.55	1.55	1.70	1.80	1.80	1.75	1.64
1934 ^{2/}	1.75	1.75	1.75	1.45	1.55	1.55	1.60	1.65	1.70	1.75	1.75	1.75	1.67

* Basic price.

1/ Interpolated.

2/ January 1930 - December 1934 estimated figures.

3/ Prices paid in South Bend, Indiana.

Computed from reports of the Bureau of Agricultural Economics, Division of Dairy and Poultry Products.

Handlers from 1919 - September 1936 were paying producers on various price plans, hence these prices are based upon reports of handlers as to the amount at which fluid milk sold during the delivery period.^{7/}

1. Class prices

Prior to the adoption of the classified-use plan in the LaPorte County market by the Indiana Milk Control Board, handlers paid for milk on various types of payment plans. In 1927 and 1928 flat prices were paid for all milk. From January 1929 to March of 1932 producers were "surplused" by the subtraction from the gross amount due producers of a percentage of the gross amount. (See table 27.) For example, in September 1931 a producer was paid for his total deliveries

	<u>Amount</u>
100 pounds	\$2.50
Less 8% of \$2.50 (flat price)	.20
Amount paid producer	<u>\$2.30</u> for all milk

The "surplus percentages" were the percentages of milk used in butter manufacture.

The LaPorte County Milk Producers' Association established the base and surplus plan in April 1932 and paid the prices in the accompanying table in the following manner:

<u>From</u>	<u>To</u>	<u>Percent of Base</u>
April 1, 1932	July 31, 1932	73
August 1, 1932	September 30, 1932	85
October 1, 1932	February 28, 1934	65

When the State Order was put into effect, a classified price plan was introduced with Class I, Class II, and Class III prices provided instead of a flat price paid for a certain percentage of base milk. (See table 28.)

(a) Class I price. A minimum Class I price of \$2.60 per hundred-weight of 4.0 percent milk, f.o.b. the handler's plant in the marketing area was set at the time the State Order was put in effect. This price

^{7/} The prices included in table 26 represent prices paid by handlers for fluid milk in the nearby market of South Bend, Indiana. The prices in that market are comparable to prices which handlers paid for milk in LaPorte County. South Bend prices are quoted because no historical series of handlers' buying prices exists for LaPorte County. The milksheds of the two markets are interrelated and many producers in LaPorte County ship milk to South Bend. The prices in the table do not represent prices paid for cream, which is included in Class I milk under the State Order.

Table 27. LA PORTE COUNTY, INDIANA.- Prices paid by handlers for 4.0 percent milk per hundredweight f.o.b. city, as evidenced by a representative handler doing business in Michigan City and the city of La Porte and handling a large proportion of net sales during State control, (September 1936-April 1937), by months, April 1927-April 1937

Year	Distribution	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
		Dolls.	Dolls.	Dolls.	Dollars	Dolls.	Dolls.	Dolls.	Dolls.	Dolls.	Dolls.	Dolls.	Dolls.
1927	Av. price	2.57	2.57	2.57	2.46	2.46	2.42	2.40	2.45	2.47	2.54	2.57	2.56
1928	Av. price	2.67	2.67	2.67	2.57	2.54	2.47	2.57	2.59	2.61	2.63	2.59	2.63
1929	Base	3%	3%	3½%	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67
	Surplus*			6½%	6½%	7½%	6%						
1930	Base	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67	2.67
	Surplus*	-	-	5%	6%	10%	6%	-	-	3%	2%	2%	10%
1931	Base	2.67	2.67	2.67	1/3-2.67	2.32	2.32	2.32	2.32	2.50	2.50	1.98	1.98
					2/3-2.32								
1932	Surplus*	15%	16%	15%	20%	22%	20%	5%	2%	8%	15%	9%	10%
	Base	1.98	1.98	1.98	1.98	1.98	1.98	1.93	1.93	1.93	1.93	1.93	1.93
	Surplus*	15%	23%	18%	Butterfat price	Butterfat price	Butterfat price						
1933	Base	1.85	1.55	1.55	1.55	1.55	1.85	1.85	1.85	1.85	1.85	1.85	1.85
	Surplus		Butterfat price	Butterfat price									
1934	Base	1.85	1.85	Federal license	Federal license	Federal license	Federal license	Federal license	Federal license	Federal license	Federal license	Federal license	Federal license
	Surplus												
1935	Base	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
	Surplus		Butterfat price	Butterfat price									
1936	Base	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95	2.46	2.42	2.47	2.49
	Surplus		Butterfat price	Butterfat price						1.49	1.39	1.45	1.48
1937	Base	2.46	2.47	2.47	2.47								
	Surplus	1.45	1.49	1.57	1.44								

*Producers surplus from January 1929-March 1932 by the subtraction from the gross amount due producers of the above percentages of the gross amount. These surplus percentages were the percentages of milk used in butter manufacture. (See text.)

Compiled from reports of the State of Indiana Milk Control Board.

Table 28.- LA PORTE COUNTY MARKETING AREA: Prices paid by handlers for 4.0 percent milk per hundredweight, by classes, and weighted prices for all milk delivered f.o.b. city during State Control

Year and Month	Class I ^{1/}	Class II ^{2/}	Class III ^{3/}	Weighted price
	Dollars	Dollars	Dollars	Dollars
<u>1936</u>				
September	2.60	1.82	1.49	2.3702
October	2.60	1.69	1.39	2.3597
November	2.60	1.74	1.43	2.4387
December	2.60	1.76	1.46	2.4445
<u>1937</u>				
January	2.60	1.76	1.45	2.3989
February	2.60	1.77	1.47	2.4002
March	2.60	1.85	1.54	2.4013
April	2.60	1.65	1.37	2.3955
May	2.60	1.61	1.33	2.2850

^{1/} Class I includes all milk sold or distributed as milk and all milk used to produce cream for consumption as cream, and all milk not specifically accounted for as Class II or Class III milk.

^{2/} Class II includes all milk in the form of chocolate milk or chocolate drink, or other flavored milk or milk drink, buttermilk, cottage cheese, condensed milk, evaporated milk, powdered milk, and milk the cream from which is used in the manufacture of ice cream or ice cream mix, or stored for the purpose of making ice cream mix.

^{3/} Class III includes all milk sold, used or distributed in excess of Class I or Class II milk.

Compiled from reports of the Indiana State Milk Control Board.

has continued to the present and it is proposed that the same price be further continued in the marketing agreement and order.

(b) Class II price....The Class II prices paid under the State Order from September 1936 to the present have been the same as the price established under the Federal Marketing Agreement and License for the Evaporated Milk Industry. The formula proposed for the computation of the Class II price is as follows: four (4) times the average price per pound of 92-score butter at wholesale in the Chicago market, as reported by the United States Department of Agriculture for the delivery period during which such milk was purchased, plus 30 percent thereof. This formula will give substantially the same price as that of the Federal Marketing Agreement and License for the Evaporated Milk Industry.

During the period September 1936 - April 1937, under State Control, the average price paid intrastate producers for Class II milk was \$1.74 per hundredweight of 4.0 percent milk, which price was identical with the price paid for milk of similar test by condenseries near the LaPorte County market. (See table 29.)

(c) Class III price. The formula for calculating the minimum price for Class III milk under the State Order was as follows: four times the average price per pound of 92-score butter at wholesale in the Chicago market, as reported by the United States Department of Agriculture, for the delivery period during which such milk is purchased, plus 10 percent. The Class III price under the State Order during the period September 1936 - May 1937 averaged \$1.43 per hundredweight for 4.0 percent milk. This average price was \$.31 lower than the average price paid by the condenseries operating in the area.

The proposed formula for Class III milk is identical with the one presented above.

2. Butterfat differential

There is a paucity of historical information concerning the butterfat differential paid in the LaPorte County marketing area. From September 1931 to February 1934 the differential paid was \$.05 per point of test below 3.5 percent and \$.03 per point of test above 3.5 percent. From March 1934 to September 1936 the differential was \$.04 per point of test above or below 3.5 percent

In the State Control Order made effective September 1, 1936, it was provided that the butterfat differential should vary as the price of 92-score butter increases or decreases within certain ranges. The butterfat differential has varied in the following manner:

When the average price of 92-score butter is

30¢	--	the differential is 3¢ for each 1/10 of 1% B.F.							
30 - 35¢	--	"	"	"	3.5¢	"	"	"	"
35 - 40¢	--	"	"	"	4.0¢	"	"	"	"
40¢ and over	--	"	"	"	4.5¢	"	"	"	"

Table 29.- LA PORTE COUNTY, INDIANA: Average prices paid by condenseries for 3.5 percent milk per hundredweight in Section I, which includes the La Porte County marketing area^{1/}

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
1932	1.12	1.00	.96	.93	.87	.81	.81	.86	.90	.91	.90	.95	.92
1933	.96	.85	.84	.87	1.00	1.05	1.12	1.14	1.13	1.14	1.13	1.03	1.02
1934	1.01	1.14	1.17	1.06	1.11	1.15	1.11	1.23	1.17	1.20	1.31	1.35	1.17
1935	1.48	1.60	1.44	1.51	1.24	1.12	1.13	1.18	1.25	1.31	1.50	1.58	1.36
1936	1.59	1.64	1.46	1.40	1.28	1.38	1.66	1.76	1.75	1.65	1.68	1.62	1.57
1937	1.59	1.58	1.62	1.49									

^{1/} Section I includes Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio, Wisconsin, and Maryland.

Compiled from reports of the Bureau of Agricultural Economics.

The butterfat differential provided for in the proposed marketing agreement and proposed order will be, as in the State Order, based on the butterfat value of milk. The butterfat differential will vary as follows:

When the average price of 92-score butter is

29¢ or less	--	the differential will be	3¢	for each 1/10 of 1% B.F.
29.1¢ to 34¢	--	" " " "	3.5¢	" " " " "
34.1¢ to 39¢	--	" " " "	4.0¢	" " " " "
over 39¢	--	" " " "	4.5¢	" " " " "

Any additional butterfat used for Class I purposes is paid for at the Class I price. However, much additional butterfat purchased is used in lower classes and this additional butterfat in the milk not used in Class I could be purchased at a price nearer the manufacturing level. Hence, a butterfat differential based upon the movement of 92-score butter prices within specified ranges appears to be a correct differential for butterfat in all milk testing below or above 4.0 percent milk.

PART VI

The Classification and Prices of Milk Provided by the Proposed Marketing Agreement and Proposed Order

The differences in the seasonal variations in deliveries in the uses of milk as Class I and Class II make necessary a pricing plan which will aid in efficient marketing of fluid milk and excess milk. The classified price plan has its origin largely in the efforts of producers and handlers to develop pricing plans that will aid in such efficient marketing of fluid and excess milk. In this market with the cooperative organization of producers and the concentration of the handling of milk with a comparatively few handlers (as described in Part III) an analysis of the classified price plan and the economic basis therefor, applies with special force in a consideration of the price structure for milk in the La Porte County, Indiana, marketing area, as set forth in the proposed marketing agreement and proposed order.

A general discussion of the basis for having a classified use plan for pricing to handlers is given in the following excerpt from a publication written by E. W. Gaumnitz and O. M. Reed and soon to be issued by the Department of Agriculture:

The most important service rendered members by bargaining cooperatives is that of selling their milk to distributors. The contract between the producer member and the cooperative usually contains a provision whereby the member agrees to sell his milk to the cooperative, or the cooperative is appointed the sole sales agent of the producer for all of his milk and other dairy products, except milk used by the producer for home consumption. The association usually agrees to sell the milk of the member and return to him the proceeds of such sale, subject to certain deductions for covering the operating expense of the cooperative. Thus the cooperative stands in the position of being the sole sales agent of a large number of producers. While the production of milk is usually in the hands of a large number of producers, the output of such individual producers being very small relative to the total produced in the market supply area, the sale of such milk is placed in the hands of a single agency.^{8/} Under these conditions the sale of milk becomes in large part a collective action and there arises the necessity for the formulation of sales and price policies.

The cooperatives, once organized, were immediately faced with the problem of selling all the milk of their members. One writer summarized the problems confronting the cooperatives, when they began operations, in the following statement:

^{8/} Several cooperatives operate in some markets.

"At that time we were confronted with irregular methods of buying, irregular methods of payment, unsatisfactory conditions of weighing or measuring, failure to pay on the part of some buyers, and often irregular and unfair practices on the part of the producers themselves!"^{9/}

The cooperatives formed during the period of the World War and immediately thereafter, a period of rapid development of milk bargaining cooperatives^{10/}, apparently bargained with distributors for flat prices for all milk. They were successful for a time in securing flat prices that they considered satisfactory, probably due to the high level of prices for milk used in manufactured dairy products, but this situation did not long continue.^{11/}

In some cases where it appears that the flat prices established by the cooperative were too high relative to the price of milk used in manufactured dairy products, distributors would refuse to take the milk of all producers supplying them, leaving the product to seek a market elsewhere.^{12/}

^{9/} Allebach, H. D., "Aims and Methods of Collective Bargaining", American Cooperation, 1928, volume II.

^{10/} Metzger, Hutzler, Cooperative Marketing of Fluid Milk, Technical Bulletin No. 179, United States Department of Agriculture.

^{11/} "The heavy European demand greatly increased the price of condensed and evaporated milk during the World War. Fluid milk prices lagged behind prices for the evaporated products from August 1916 to April 1917. With the rapidly increasing demand for milk and other dairy products from 1917 to 1920, marketing associations for the most part had little trouble in obtaining high returns under the flat-price system; but it finally became evident that cessation of the war-time demand for condensed and evaporated milk had left a large volume of these products for which there was no profitable outlet . . . With the loss of profitable outlets for these products, a few manufacturers closed their plants, and those that continued to operate were enabled to do so only by paying producers greatly reduced prices. As a result, the producers . . . could not force a rise in the flat-price level while the total demand was below the total supply. Distributors having a relatively large volume of surplus also became dissatisfied with the flat-price system because it failed to recognize that a large part of their volume had a market value below the average on which the flat price was based." Bartlett, R. W., Cooperation in Marketing Dairy Products, chapter I, pp. 11-12.

^{12/} "Like other associations, as soon as we got started in 1917, we found that milk producers were in the habit of allowing production to become very uneven and out of balance with demands. The supply would often be nearly double the demand and at other times of the same year the supply did not equal the demand. This situation was very disastrous and many producers had no market at some seasons of the year." Hough, C. E., "Basic and Surplus Milk Classification Policy," American Cooperation, 1925, volume II.

Horner puts the matter thus:

"Quite naturally the flat price was first used because farmers were not familiar with the conditions of the market. It was when distributors began to ask for a lower price because of large amounts of surplus that the producers saw the equity of a use price basis . . .

"There seems to be no reason why milk should be bought on a flat basis."^{13/}

Perhaps the most fundamental difficulty in pricing milk to distributors on a flat-price basis is that distributors tend to vary widely relative to the proportion of milk sold in each use, coupled with the fact that, in a market sufficiently large, differences in transportation costs per unit of milk and the product equivalent of such unit of milk operate so that the market tends to be zoned and milk used for fluid milk must command a price sufficiently higher than the cream equivalent of a unit of milk to cover the higher cost of transporting milk in fluid form rather than as cream or other product form.^{14/}

It is rather well recognized that there are marked variations between distributors with respect to the proportion of their total sales represented by sales of milk in fluid form. An example of this type of variation between distributors is set forth in table 30, which shows the number of distributors in specified markets classified according to the proportion of their total milk sales that was sold in fluid form. In the Boston market the proportion fluid milk sales are of total sales varies for particular distributors from slightly above zero to over 90 percent, with six distributors falling in the former category and four in the latter. Twenty-one distributors sell over 50 percent, while 15 sell less than 50 percent of their total sales in fluid form. In St. Louis, Missouri, Phoenix, Arizona, Richmond, Virginia, and San Diego, California, the range is not so great as in Boston but nevertheless wide variations exist. (See table 30.)

Cooperatives, in bargaining for flat prices, found that two major difficulties confronted them, these being:

(1) If they bargained for a flat price which would closely approximate the weighted average of the prices that would tend to prevail for milk and the cream and other product equivalent of milk f.o.b. city (and it probably is a reasonable presumption that they would bargain for prices somewhat higher than such weighted average), the distributor who utilized a higher proportion of his receipts in fluid form than the average for the market would be placed at an advantage as compared to the distributor who

^{13/} Horner, J. T., "A Comparative Study of Various Fluid Milk Marketing Plans," American Cooperation, 1926, volume II.

^{14/} Differences in sanitation regulations for milk and the several products also operate to increase the price of fluid milk relative to milk used for other purposes, since milk used as fluid milk usually has to meet more stringent regulations than milk produced for use in product form.

Table 30.-- Number of distributors in specified markets classified according to the proportion of their total sales represented by Class I milk

Market	Period covered	Number of distributors who utilized specified percentage of their total purchases in Class I milk												Total number of distributors
		Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	Per- cent	
		0-9.9	10.0-19.9	20.0-29.9	30.0-39.9	40.0-49.9	50.0-59.9	60.0-69.9	70.0-79.9	80.0-89.9	90.0-100.0			
Boston, Mass.	Mar.-Dec. 1/1934	6	1	3	-	5	7	3	3	4	4			36
St. Louis, Mo.	Jul. 1934-Jun. 1935	-	-	1	1	6	2	-	-	-	-			10
Phoenix, Ariz.	Jan.-Dec. 2/1935	-	-	-	-	-	3	1	2	-	-			6
Richmond, Va.	June 1934-May 1935	-	-	-	-	-	2	1	1	-	-			4
San Diego, Calif.	Feb.-Dec. 3/1935	-	-	-	-	1	1	1	1	1	1			6

1/ Figures represent percentage of total milk purchased during the period March to December 1934, except for five firms, 1 of which reported for the period April to December, 1 August to December, and 3 March to July.

2/ Figures for seven months for 1 firm, 8 for another, others for entire year.

3/ Includes 3 distributors who, while having a significant proportion of the total sales in the market, produce a portion of the milk they distribute.

Compiled from annual reports of the market administrators.

utilized a lower proportion of his total receipts as fluid milk than the average proportion for the market as a whole; and

(2) Under the flat-price system distributors who utilize a significant proportion of their total receipts in product form tend to cut off producers in order to bring their receipts and fluid milk sales into closer adjustment, or refuse to bargain with the cooperative.^{15/}

Metzger states that "With the coming of the cooperative association to represent the producers, the distributor continued to use the same argument for lower prices that he had used for years: That there was so much surplus he could not profitably dispose of the milk unless the buying price was low. In many markets it was felt that this was often used as an argument to place prices lower than they should be. It was proposed that the distributor show the producers exactly the quantity he sold for different uses, and that a basis of payment be arranged according to the quantities of milk sold in each of these classes. The plan is usually known as the 'Classification' plan and sometimes as the 'Use' plan."^{16/}

In an effort to overcome some of the difficulties of the flat-price system, a system of pricing milk according to the form in which it was sold by distributors gradually developed. Apparently the plan was first used on an extensive scale in Boston, Massachusetts, Washington, D. C., and Philadelphia, Pennsylvania, about 1918. Since that time the plan has been instituted in a large number of milk markets. At the present time in most large markets milk is sold to distributors on the basis of a classified price plan, that is, distributors pay different prices for milk

^{15/} For example:

"A dealer under the flat-price system does not want to buy any more milk than he needs to take care of his fluid market. Therefore, when production increases above what he needs for fluid milk, all sorts of methods are used to cut down the supply. The dealer may tell the farmers to hold back a day's supply of milk. The result is that the farmers probably sell the milk elsewhere at still lower prices. Or the dealers neglect to send a sufficient number of cans to take care of the production. The farmer, then, has no method, unless he owns his own cans, of getting the milk into the market under a cut-price sale. It is a shut-back system of handling surplus." Bronson, W. H., "Milk Price Formulas," American Cooperation, 1925, volume II. "Milk dealers will not agree in advance to buy unlimited quantities of milk at fluid prices that are satisfactory to producers. They will pay satisfactory prices for the milk which they can sell as fluid milk, if the surplus of producers' shipments can be paid for at prices which represent the value of those surpluses." Hough, C. E., "Basic and Surplus Milk Classification Policy," American Cooperation, 1925, volume II.

^{16/} Metzger, Hutzler, Cooperative Marketing of Fluid Milk, Technical Bulletin No. 179, p. 48. United States Department of Agriculture.

depending upon the form in which they sell it. In some markets a rating plan^{17/} was used in such a manner that it operated not only as a plan for prorating to producers the proceeds of sales to distributors but also as a plan for selling milk to distributors. This was accomplished by setting total ratings at about the same level as fluid milk sales, and shifting producers among distributors so that the milk each distributor was required to pay for at "basic prices" closely approximated each distributor's fluid milk sales. In this manner the rating plan also acts as a classified price plan under which the distributor is charged different prices for milk sold by him in different forms.

Some indication of the development of the classified price plan of selling milk to distributors is given in table 31. The historical data readily available are far from complete, certainly with respect to the dates the plan was instituted in different markets and the number of classes of milk, but it is believed that the data are reasonably accurate in indicating the development of classification. The data indicate that in 1918 milk was being sold to distributors on the basis of a classified price plan in two markets. In 1933, 30 markets were operating under the plan. It should be emphasized that these figures do not represent the total number of markets operating under the plan in the United States, since data are lacking for many markets. However, the figures probably represent the trend in the development of the plan. (See table 31.)

It should be stressed that the classified price plan is a method of selling milk to distributors, that is, a schedule of prices for classes of milk set up, such classes being based on the form in which it is used by the distributor. The second phase of the price-making activities of cooperative associations is the method or methods of returning to producers the proceeds of sales to distributors, which are discussed in the following section.

A. Provisions of the proposed marketing agreement and proposed order with respect to the classification of milk

Three classes of milk are specified in the proposed marketing agreement and proposed order for the purpose of pricing milk to handlers. These are:

Class I - all milk sold or distributed as milk, all milk used to produce cream for consumption as cream, and all milk not specifically accounted for as Class II or Class III milk;

^{17/} Commonly called the base-rating, basic-surplus, or base-surplus plan.

Table 31.-- Cumulative total of markets instituting classified price plans, 1918-1933, inclusive

Year ^{1/}	Number of markets operating under classified price plan
1918	2
1919	3
1920	4
1921	6
1922	8
1923	10
1924	11
1925	-
1926	12
1927	-
1928	-
1929	15
1930	19
1931	24
1932	28
1933	30

^{1/} 37 markets operating under the classified price plan are not included in the above, due to lack of data with respect to the date of institution of the plan.

Class II - all milk sold as flavored milk or milk drinks, buttermilk, cottage cheese, condensed milk, evaporated milk, powdered milk, and cream for the manufacture of ice cream;

Class III - all milk specifically accounted for as (a) being sold, distributed or disposed of other than as Class I or Class II milk and (b) actual plant shrinkage within reasonable limits.

B. Use Classification

Classification of milk according to use has been a marketing practice in La Porte County since September 1936. Classification of milk according to use was provided for in the State Control Board Order, regulating intrastate milk, in this marketing area, made effective September 1, 1936. The classes of milk set forth in the State Order were identical with the classes set forth in the proposed marketing agreement and proposed order.

Handlers cannot purchase milk or cream for fluid milk and cream use from any producer who has not been inspected by the health authorities in whose jurisdiction LaPorte County is located. Hence, they must at all times insure themselves against a possible shortage of milk for such uses.

But the milk and cream used for purposes other than as fluid milk and cream do not need to meet the same strict health standards and such milk and cream can be purchased from producers who are not regularly or rigidly inspected. The milk and cream purchased by the fluid milk and cream handlers in excess of their fluid milk and cream needs must be sold in competition with this lower quality milk and cream.

The supply of milk and cream must be fairly even in order to meet the even demand for milk because fluid milk and cream used for fluid consumption purposes cannot be stored for long without a deterioration in quality. It must be produced comparatively near to the market so that it is easily available to the market in all kinds of weather and also because of the expense of transporting milk long distances. These characteristics justify classifying such milk separately as Class I.

Milk sold for consumption as dairy products (with the exception of flavored milk, milk drinks, which are also included in Class II), such as buttermilk, cottage cheese, condensed milk, evaporated milk, powdered milk and cream for the manufacture of ice cream must meet quality standards set up by the health authorities. However, in the case of milk used for flavored milk and milk drinks it is customary in the market to use skim milk rather than whole milk in making these milk products. The skim milk put

to these uses might be termed a by-product of cream, which has been separated for Class I use and neither its quality nor its use is equivalent to that of products included in Class I. In the case of milk used for other dairy products included in this classification it is not necessary to have as even a supply as is required for milk used as Class I. Such products can be stored for short periods without an appreciable deterioration. Milk used for these products can also be produced at longer distances from the market and the quality of product needed for such uses does not have to be as high as necessary for Class I use. Because the same evenness of supply as is necessary for Class I milk is not required for milk put into the above uses and because these products do not have to meet such high quality standards, it is reasonable to classify such products as Class II milk.

In order that the market shall have at all times a sufficient quantity of milk for Class I and Class II needs, an additional supply of milk of high quality must be produced to take care of daily and seasonal fluctuations in demand. Although such excess milk is of a quality high enough to be used as Class I milk, it must compete on the market, if not sold as Class I or Class II, with those manufactured products which do not require as high quality milk. Hence, such milk must be classified separately with a price in line with the price for alternative uses. In this market, such excess of milk is not large and the facilities of handlers who must convert this milk into a manufactured product will permit only the manufacture of butter in small quantities. The price paid for this milk is therefore determined by the current price of butter, according to an established formula provided for in the proposed marketing agreement and proposed order.

From September 1936 through April 1937 the percentage of all milk used as Class I varied from 74.0 percent in September 1936 to 84.1 percent in December 1936. The percentage of milk used as Class II varied from 17.8 in September 1936 to 9.07 in December 1936. The percentage of Class III milk varied from 6.69 percent in November 1936 to 10.45 percent in March 1937. (See table 20.)

These variations in percentages used in each class arise from the fact that the amount consumed as fluid milk and cream does not fluctuate, to the same extent as deliveries and although handlers cannot use all the milk as Class I and Class II, they must handle seasonal and daily surpluses in order that they may be assured of an adequate supply in the short season. In this market, unlike many markets, the amount of excess milk delivered during the flush season of deliveries is not great. This is because the seasonal demand for milk increases with the influx of summer residents to the marketing area.

C. Minimum prices to be paid producers

The minimum price for Class I milk, according to the terms of the proposed marketing agreement and proposed order for milk, delivered from the producers' farm to the handler's plant located in the marketing area is \$2.60 per hundredweight.

The minimum price for Class II milk, proposed for milk delivered to handlers' plants located in the marketing area is four (4) times the aver-

age price per pound of 92-score butter at wholesale in the Chicago market as reported by the United States Department of Agriculture, for the delivery period during which such milk is purchased, plus 30 percent thereof.

The minimum price for Class III milk proposed for milk delivered to handlers' plants located in the marketing area is four (4) times the average price per pound of 92-score butter at wholesale in the Chicago market as reported by the United States Department of Agriculture, for the delivery period during which such milk is purchased, plus ten percent thereof.

PART VII

Conclusions Relative to the Minimum Prices to Producers as Set Forth in the Proposed Marketing Agreement and Proposed Order

A. The Class I price

The Class I price of \$2.60 per hundredweight, provided by the proposed marketing agreement and proposed order, is designed to result in a price for Class I milk that will give milk sold in this marketing area a purchasing power equivalent to its purchasing power during the base period, August 1919-July 1929. It is believed that this price is reasonable also with respect to the current high prices of feeds, the demand for corn and forage crops, and the relatively high prices of beef cattle and hogs.

B. The Class II price

The quantity of milk which is used for Class II purposes does not require, as stated previously, the evenness of supply that is required for Class I milk because milk used for most of the products included in Class II can be stored for short periods without deteriorating. Also flavored milk and milk used for milk drinks which are included in Class II may be of a quality lower than Class I with respect to butterfat and other solids. Milk used for the manufactured dairy products in Class II may be produced at longer distances from the market and the possibility of obtaining milk for use in this class from outside sources necessitates keeping the price of Class II milk in a competitive relationship to the price of such outside milk. In view of these considerations, the Class II milk formula provided for in the proposed marketing agreement and proposed order will give a reasonable minimum price for such milk.

C. The Class III price.

It is proposed that the method of determining the Class III price be that of a formula based directly on the price of 92-score butter at Chicago. This method of determining the price is used because excess milk in the market is converted into butter. All milk is brought to the handlers' plants in the marketing area and whatever excess may exist is processed into butter by handlers. Class III milk must compete for a market with the milk used for those manufactured products which do not require as high quality milk. The 10 percent addition represents the value of the skim milk used in making milk products other than those defined in Class II milk.

D. Outside market sales

The LaPorte County, Indiana, Marketing Area includes only certain parts of the entire county of La Porte in Indiana. Some handlers who

purchase milk from producers, as defined in the proposed marketing agreement and proposed order may sell not only in the marketing area but in New Buffalo, Michigan, and in other places outside the marketing area. The proposed marketing agreement and proposed order is designed to regulate and set prices to be paid for all milk purchased from producers by handlers who handle milk in the marketing area. But, because most of the milk dealers in the market outside the marketing area are not subject to the proposed marketing agreement and proposed order, the Class I price specified in it might put those handlers at a disadvantage (or an advantage) with their competitors operating in those markets with respect to the prices paid for Class I milk. Thus, it would be inequitable to apply the Class I price as stated in the proposed marketing agreement and proposed order to such sales of milk if that procedure would create such a situation.

Nor can the price be left open to the discretion of the handler, for the price of such sales applies to milk purchased from producers who are supplying the LaPorte County marketing area and so affects the prices paid to them.

The most reasonable procedure would be for the market administrator to ascertain what prices other dealers operating in those outside markets are paying for their Class I milk and to charge handlers subject to the proposed marketing agreement and order the same price. Of course, a reasonable adjustment would be allowed for transportation from the plant where such milk is secured from producers to the plant where milk for those sales is loaded on wholesale and retail routes.

The proposed marketing agreement and proposed order does not contain a provision covering a situation as outlined above. However, it seems advisable that such a provision be included in a marketing agreement and order for the LaPorte County marketing area.

PART VIII

Equitable Apportionment of the Proceeds From Milk Among All Producers

A. Pooling of proceeds from the sale of milk to handlers

The Agricultural Marketing Agreement Act of 1937 provides for two methods by which total payments to producers may be distributed. The first of these, commonly called the "market-wide pool", is for all handlers to pay all producers in the market a uniform price for milk of the same grade and quality based on the total utilization of the milk in the market. The second of the methods, commonly called "a handler pool", is for each handler to pay a uniform price to all his producers in the market for milk of the same grade and quality based on his utilization of the milk.

There is provided in the proposed marketing agreement and proposed order the second plan, whereby the total proceeds from the sale of milk by producers to a handler are pooled and are then equitably prorated to those producers on the basis of the utilization of the milk by the handler to whom the producers delivered. As the classification of milk according to use and the uniform pricing to all handlers according to that classification have put all handlers on the same competitive basis with respect to the prices to be paid to all producers for milk, so this plan of equitably apportioning the proceeds of milk among producers puts all handlers on an equal competitive basis with respect to the prices paid to each of their producers for milk.

The "handler pool" method of payment is simply an extension of the type of payment plan already existent and based on satisfactory experience in the LaPorte County Marketing Area. If a handler sold 75 percent of his milk as Class I and Class II and 25 percent as Class III, he did not pay 75 percent of his producers the Class I and Class II price and 25 percent the Class III price. Such a method obviously would not have been equitable, and under such a plan there could be little hope of any stability in the market. It is natural to expect that, if some producers who have been inspected and who meet the health requirements and other standards required for Class I and Class II milk do not get a share of that market, they will undertake to do so.

Cooperative organizations have recognized the principle that all producers should have an equitable share in the fluid milk market and that market stability can be attained only if such equitable sharing of the market prevails. In the LaPorte County, Indiana, Marketing Area

the producers' cooperative has tried to accomplish this end by recognizing the fact that producers whose milk meets the health requirements of the La Porte County marketing area in the long run would receive their share of the market. It has given to each member who met the above qualifications his share in the market through the computation of prices by individual-handler pools and by shifting producers from handler to handler. Producers delivering to an individual handler shared in the market on the basis of the utilization of milk by that handler. The proposed marketing agreement and proposed order provide for the continuance of this same plan, which has in the past been an equitable method of payment. In this way there is accomplished what would be the result in the long run if economic forces were allowed to work themselves out, i.e., every qualified producer having his share in the apportionment of the proceeds of milk in the market.

The prices provided in the proposed marketing agreement and proposed order have been shown in the analysis to be prices which are fair and reasonable. The Agricultural Marketing Agreement Act of 1937 provides for "prices that will give such commodities (milk, in this instance) a purchasing power equivalent to their purchasing power during the base period. The level of prices at which it is declared to be the policy of Congress to establishshall be such level as will reflect the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products in the marketing area to which the contemplated marketing agreement, order, or amendment relates...."

In a stabilized market there would be but one price for all the milk delivered and demanded in each of the various classes provided in the proposed plan. But in practice, for many reasons -- such as the wide separation of producers and, probably, because of their location -- with only one outlet for their milk there have been almost as many individual prices in milk markets as there have been transactions between handlers and producers. Such conditions create instability in a market with no way for anyone to determine what the actual price of milk is in the market. The prices proposed, it is thought, will clear the market for each class of milk and in this way establish a stability not possible otherwise.

The milk from some producers is not needed at all seasons of the year, yet it is necessary that such producers be completely equipped and inspected the whole year in order to deliver milk of the required quality in the seasons when their milk is needed. In order that these producers will go to this expense and trouble they must be allowed and are entitled to share in the fluid milk and cream market the whole year. If such is not the case the competition for a market would cause the seasonality of prices to be very marked and cause much disruption in the market. In addition to the competition of such producers for the market there is also the competition for the market by new producers who have so adjusted their deliveries and are producing such a quality of milk that they are now desirable producers for fluid milk handlers. Then, too, there is the competition of those few who, as in other businesses, prefer making individual

gains at the expense of others to having a stable market. Some competition is desirable and constructive and it is such that is fostered and aided by the proposed plan, eliminating much of the destructive competition. Experience has shown that much of the competition is bound to be destructive, and it is such competition that must be regularized.

The lack of any efficient plan for the equitable distribution of the proceeds from fluid milk and cream sales among all producers has been a principal cause of unsatisfactory conditions in the La Porte County, Indiana, marketing area and has led to destructive competition among handlers and producers. As the following statement taken from the Federal Trade Commission report on the Connecticut and Philadelphia milk sheds indicates, the absence of an efficient and equitable marketing program leads to unfair practices: "Dairy farmers of the Connecticut and Philadelphia milk sheds lost in excess of \$600,000 during 1934 through practices of certain distributors, for most of which it is difficult to find justification. These practices included underpayments to producers by dealers and excessive hauling charges. This estimate does not include any excessive country station charges to producers. Prevalence of these practices both in Connecticut and Philadelphia raises the question as to whether similar practices are being employed in other areas."

Much of the destructive competition which existed in the La Porte County marketing area has been eliminated by the action of the Indiana State Milk Control Board, which by means of an Order has established minimum class prices for milk and has provided for the equitable apportionment among Indiana producers of the proceeds of the sale of their milk. The Order of the Indiana State Milk Control Board can not, of course, be enforced with respect to milk moving in the channels of interstate commerce, and the destructive competition which arises from the movement of milk in interstate commerce can be eliminated only by the enforcement of a Federal marketing agreement and order in conjunction with the State Board Order now regulating the marketing of intrastate milk.

There is needed at all times during the year some excess milk to cover the daily fluctuations in the sale of fluid milk and cream, and in the flush season there is a considerable amount of such excess milk produced in the market. When some milk is regulated and other milk is not regulated it is comparatively easy for handlers selling milk, the marketing of which is not regulated, to gain an advantage over handlers whose milk is regulated.

In order to obtain a larger share of the fluid milk market some producers delivering to unregulated handlers are willing temporarily to accept prices below what are actually needed by them to cover their expenses. Such a condition as this motivates handlers to seek cheaper sources of supply, invites prices cutting by other groups, and creates a very unstable market. The following illustration shows how handlers, as

well as producers, in a market can gain for a time a decided advantage. Assume that the Class I price is \$2.00 and the Class II price is \$1.50 and the Class III price is \$1.00 per hundredweight. Assume, also, that the sales of fluid milk by each handler in the market are 60 percent of his total sales, sales of Class II 20 percent, and sales of Class III 20 percent. Then a handler paying the full price for his milk would pay to his group of producers, if they were to carry their share of the surplus, the following:

60	pounds	as	Class	I	at	\$2.00	=	\$1.20
20	"	"	"	II	"	1.50	=	.30
20	"	"	"	III	"	1.00	=	<u>.20</u>

Composite price per cwt. 1.70

In order that all producers will continue to deliver a sufficient supply of milk of wholesome quality required for Class I, it is assumed that they must receive at least \$2.00 per hundredweight. But, in the short run, with a fixed investment some producers may be induced by a handler who offers a slightly higher composite price than the composite price of other handlers, calculated according to the class utilization of all milk delivered to the market, to allow their milk to be delivered in the city at a lower Class I price. Under this arrangement some milk which is not needed to cover daily fluctuations in sales can be sold for fluid use by the unregulated handler. The following illustration attempts to explain the reason why a particular handler can under buy other handlers in the market and yet pay his producers a slightly higher composite price.

If one handler has a larger percentage of his milk utilized as Class I than the average percentage of other handlers which he might have obtained by selling some milk somewhat below the prevailing price in the market and yet continued to get the full price from his regular customers (a practice not uncommon in many milk markets, particularly in the wholesale trade), then he might return to his producers:

60	pounds	as	Class	I	at	\$2.00	=	\$1.20
10	"	"	"	I	"	1.75	=	.175
20	"	"	"	II	"	1.50	=	.30
10	"	"	"	III	"	1.00	=	<u>.10</u>

Composite price per cwt. 1.775

This handler will thus have underbought the market and yet, by so doing, could have increased his composite price to producers by \$.075 per hundredweight, some or all of which he could pocket. But this handler could increase his Class I, assuming no increase in Class I in the market, at the expense of other handlers in the market. The other producers delivering to the other handlers in the market would then receive only:

50 pounds as Class I .	@ \$2.00 ==	\$1.00
20 " " " II	@ 1.50 ==	.30
30 " " " III	@ 1.00 ==	<u>.30</u>

Composite price per cwt. \$1.60

More than likely, however, in order to retain his fluid sales and maintain his price to producers, this type of handler would be inclined to lower his price to those customers to whom the cut-price milk was offered. Eventually, before the first cut-price handler finally succeeded in selling the additional milk, he might have offered it to several customers and thereby have forced down the price on fluid milk sales on many times the volume of milk which he has to offer. In this way the price for fluid milk in the whole market is forced down to a lower level. In the La Porte County market, handlers who are regulated by the State Milk Control Board Order cannot, without violating the existing Order, meet such destructive competition on the part of unregulated handlers. The effect of such unfair competition is disastrous to the stability of the market, and the proposed marketing agreement and proposed order attempt to eliminate such practices among handlers handling inter-state milk by requiring them to pay for the milk according to the use made of it. Certain handlers will no longer be allowed to underbuy other handlers in the market.

The Federal Trade Commission report on the Connecticut and Philadelphia milkshed reveals that some handlers in the milksheds studied were able to underbuy their competitors by underpaying their producers and by charging producers excessive hauling rates. "Based on 1 month's figures, selected because they were most readily available for that month, it may be estimated that the dairy farmers of Connecticut and Philadelphia lost in excess of \$600,000 (referred to previously) in 1934 through practices of distributors for most of which it is difficult to find justification. The foregoing estimate is made by multiplying by 12 the amounts involved in each of these practices for the sample month referred to. These practices, together with the amounts involved in each for 1 month, are as follows:

	Philadelphia:	Connecticut:	Total
	1 month 1/:	1 month 2/:	
Underpayments on milk sold on utilization basis	\$10,562.21	: \$ 314.47	:\$10,877.08
Underpayments by dealers buying on flat price	4,045.84	: 6,648.61	: 10,694.45
Underpayments on milk sold as Class I .	5,365.53	: -	: 5,365.53
Profit on hauling producers' milk to city processing stations	21,412.30	: 1,471.20	: 25,883.50
Total for one month	44,386.28	: 8,434.28	: 52,820.56
Yearly basis	532,635.36	: 101,211.36	: 633,846.72

1/ For most companies, the data are for October 1934; for others September 1934.

2/ For most companies, the data are for June 1934; for others July 1934.

The actual operation of the plan to apportion proceeds among producers works exactly as if each handler paid into the market administrator the total value of (1) his Class I milk times the Class I price plus (2) his Class II milk times the Class II price plus (3) his Class III milk times the Class III price and the total of the above was then divided by the market administrator among his own producers according to some equitable plan, which, for this market, is a rating plan. The market administrator's office merely converts the value of the milk sold by an individual handler into uniform prices which the handler will pay his own producers.

There remains room for competition among producers to make additional gains for themselves through superior quality and efficiency. After the milk has been received at the milk plant the handlers compete with each other on the basis of efficiency of operation and distribution, and any gains so made are not shared with the rest of the market.

The actual mechanics of computing the total value of the individual-handler pools are provided in article VI and section 1 of article VII of the proposed marketing agreement and proposed order in the following manner:

The provision of article VI of the proposed marketing agreement and proposed order related to those handlers who are also producers.

Article VI provides that "in the case of a handler who is also a producer, and has purchased milk from producers, the market administrator shall, in the computations set forth in article VII, first, include the milk purchased by him in each class from other handlers and then apportion the milk purchased by him in each class from other handlers and then apportion the milk purchased by him from producers to each class according to the ratio which such handler's remaining total sales in each class bears to his remaining total sales in all classes." Since all other handlers purchase milk in a specified way from producers, and since the milk purchased by a handler is necessarily intermingled with what he may buy, it is necessary to specify the relation between milk purchased and milk produced. The effect of this article is to classify his sales of milk purchased according to the class utilization of the milk he has produced and sold, and to eliminate the milk produced according to the same utilization.

Article VII of the proposed marketing agreement and proposed order is purely administrative in nature but necessary in order to set forth definitely the procedure by which the market administrator is to translate the class prices into uniform prices to all producers.

Section 1 of this article provides for the computation of the total value by classes of all the milk purchased by each handler to determine his obligation to his producers for milk purchased. Section 2 of the same article provides for the translation of the above computation of values of milk into uniform prices that each handler shall pay to his producers.

B. Rating plan proposed

Section 4 of article VII of the proposed marketing agreement and proposed order provides for a rating plan for the purpose of paying out to all producers according to deliveries during a representative period of time, the total value of milk for each delivery period. The rating of each producer is proposed to be a quantity of milk for each delivery period calculated as follows:

1. Effective for the remainder of the calendar year 1937, the rating of each producer shall be the daily milk delivery from which is calculated the rating of such producer, if any, under the Order of the State of Indiana for the marketing area;
2. Effective for the remainder of any calendar year when data are lacking for determination of a rating otherwise for any producer, the rating of such producer shall be the proportion of his average daily delivery of milk during the first three delivery periods such producers deliver milk which is the proportion of the aggregate ratings to aggregate deliveries of all other producers;
3. Effective for each year subsequent to 1937, divide the total deliveries in bulk to handlers during the four months of the preceding year when deliveries were lowest by the number of days on which deliveries were made, and take such a percentage of the result as will make the total of all figures so determined approximately equal to 115 percent of the average Class I and Class II milk per day sold during such year by all handlers to whom such milk was delivered; and
4. Effective for the remainder of the then current calendar year in the case of any producer whose delivery of milk in bulk to handlers during any two consecutive delivery periods is less than 85 percent of his base, that figure which is equal to the average delivery per day of such producer during such two consecutive delivery periods.

Heretofore the discussion has shown that all milk in the market is priced to handlers in accordance with the purpose for which the milk was used by them, and the proceeds from the sale of milk are distributed through individual-handler pools. The next step in the proposed marketing plan is to provide some means of equitably apportioning the proceeds of such milk to producers.

The plan proposed is the type of plan commonly known as the "rating" plan. This plan provides a means by which each producer shares equitably in the fluid milk and cream market. It has been pointed out that in most markets the sales of fluid milk and cream vary much less on a seasonal basis than do deliveries. Hence, during the short season of deliveries milk delivered in the supply area is more nearly equivalent to the fluid milk and cream needs of the marketing area than is the case in the flush seasons of deliveries when deliveries are

considerably in excess of fluid milk sales. The deliveries of individual producers making up the total deliveries of the market vary markedly with respect to seasonality of deliveries.

Many producers who have long been delivering milk for fluid milk consumption deliver in accordance with the handler's needs throughout the year, and hence their milk is much more acceptable to the fluid milk handler because then he does not need to carry any excess milk with the accompanying expense and trouble of adding producers in short seasons and dropping them in flush seasons. He can adjust his purchases of milk to his fluid milk and cream sales much more economically and efficiently. Hence, the calculation of a producer's rating on the basis of a season when deliveries are short and milk is more in demand by handlers for the fluid milk and cream trade is an equitable means of prorating the proceeds of fluid milk and cream sales to producers, for it is only that amount of milk that he can be depended on to deliver every month of the year.

Producers are at liberty to increase or decrease their deliveries of milk at any or all seasons of the year. It is probable that some producers will find that it is profitable for them to deliver more milk in flush seasons and others will find it more profitable to deliver more milk in the short seasons. Others may find it more advantageous to deliver in accordance with market requirements. It is the deliveries of this last group of producers which are of greatest demand among handlers. The percent of feed purchased, the percent of cattle purchased, and the type of farming practiced by a producer are some of the factors that will determine which is the most profitable seasonality of deliveries for him.

That the rating plan is a commonly accepted market mechanism is evidenced by the large number of milk markets wherein the proceeds of sales to handlers are prorated to producers through the rating plan. On the basis of available information it appears that the rating plan was started in Baltimore, Maryland, in 1918. Since that time the rating plan has been instituted in a large number of important milk markets and has come to be recognized as an equitable method of prorating to producers the proceeds of sales to handlers. (See table 30.) Table 31 shows the number of markets operating under the rating plan, by years, 1918 to 1934. The use of this plan of prorating to producers the proceeds of sales to handlers spread slowly and by 1929 ten markets were operating under the plan. By 1933 the number of markets operating under the plan had increased to 27 and in 1934, 34 markets were operating under the plan. The development of the rating plan has not been limited to any one section of the country.

According to the figures given in table 30, markets in 17 States were operating under the plan. The States included, among others, such widely separated States as Massachusetts, California, Georgia, Oklahoma, and Michigan.

As was indicated in Part IV, table 20, the deliveries of milk for the marketing area have been at all times in excess of the fluid milk and

Table 30. Milk markets operating with rating plans 1/ as a part of the market structure, and date of institution of rating plan on these markets, as of April 15, 1936.

Market	State	Effective date of license	Year rating plan was established (approximate)
Baltimore	Maryland	Aug. 1, 1934	1918
Philadelphia <u>2/</u>	Pennsylvania	Aug. 25, 1933	1919
Detroit	Michigan	April 1, 1934	1923 <u>3/</u>
Newport	Rhode Island	" 1, "	1923
Ann Arbor	Michigan	July 1, 1934	1923 <u>4/</u>
Grand Rapids	Michigan	" " "	1923
Washington	Dist. of Columbia		March 1, 1924
Los Angeles	California	June 1, 1934	Feb. 1926 <u>5/</u>
Saginaw	Michigan	July 1, 1934	1927
Louisville	Kentucky	June 1, 1934	1929 <u>6/</u>
Savannah	Georgia	Aug. 16, 1934	1929
Chicago	Illinois	Feb. 5, 1934	1929
Des Moines	Iowa	Feb. 14, 1934	1930 <u>7/</u>
St. Louis	Missouri	Mar. 2, 1934	1930 <u>8/</u>
Boston	Massachusetts	Mar. 16, 1934	1930 <u>9/</u>
Richmond	Virginia	May 1, 1934	1930
Alameda County	California	July 1, 1934	1930
Lansing	Michigan	" " "	1930 <u>10/</u>
Muskegon	"	" " "	1930
San Francisco	California	Oct. 2, 1934	1930
Greater Kansas City	Missouri-Kansas	Mar. 17, 1934	1931
Providence	Rhode Island	Apr. 1, 1934	1931
New Bedford	Massachusetts	" " "	1931
Fall River	"	" " "	1931
Evansville	Indiana	Feb. 26, 1934	1932
Southern Illinois	Illinois	Nov. 1, 1934	1932
Atlanta	Georgia	Dec. 1, 1934	1932 <u>11/</u>
San Diego	California	Feb. 1, 1935	1932
Quad Cities	Iowa-Illinois	June 1, 1934	July 1933 <u>12/</u>
Battle Creek	Michigan	July 1, 1934	Sept. 1933
Kalamazoo	"	" " "	1933
Omaha-Council Bluffs	Nebraska-Iowa	Feb. 23, 1934	Feb. 23, 1934 <u>13/</u>
Lincoln	Nebraska	Mar. 17, 1934	1934
Wichita	Kansas	" " "	Mar. 17, 1934 <u>14/</u>
Leavenworth	"	May 16, 1934	May 16, 1934
Bay City	Michigan	July 1, 1934	May 3, 1934
Flint	"	" " "	" " 1934
Port Huron	"	" " "	July 1, 1934 <u>15/</u>
Tulsa	Oklahoma	Aug. 21, 1934	Nov. 11, 1934 <u>16/</u>

1/ Sponsored in every case by a cooperative association of producers in the market
2/ Operating under the "old" license policy.

- 3/ Horner, J. L., Michigan State College, Special Bulletin No. 170, page 31.
- 4/ Abandoned after several years. Reestablished in 1930.
- 5/ Source: U.S.D.A. Technical Bulletin No. 179, Cooperative Marketing of Fluid Milk, by Hutzler Metzger.
- 6/ Introduced about 1929 but discontinued in fall of 1930. Reestablished in later years.
- 7/ Rating plan dropped from license December 5, 1934.
- 8/ Rating plan discontinued under license as of November 16, 1934.
- 9/ There had been in effect for several years another plan prior to the present one.
- 10/ Operated only temporarily. Effected again in June 1934.
- 11/ Two early attempts failed. Reestablished in February 1934.
- 12/ Abandoned in March 1934. Added to license September 1, 1934.
- 13/ Apparently no rating plan prior to the license.
- 14/ No rating plan prior to license.
- 15/ The rating plan had been used over a small part of the market for several years previously.
- 16/ Established as a license feature November 5, 1934.

Compiled in most cases from transcripts of hearings for proposed marketing agreements for milk.

Table 31. Number of milk markets wherein rating plan was instituted during the year, and cumulative total, 1918 - 1934, inclusive.

Year	Number of markets where rating plan was started during the year	Cumulative Total
1918	1	1
1919	1	2
1920		2
1921		2
1922		2
1923	3	5
1924		5
1925		5
1926	1	6
1927	1	7
1928		7
1929	3	10
1930	8	18
1931	2	20
1932	4	24
1933	3	27
1934	7	34

The data are incomplete in that no information is available covering all milk markets. The data given in the above table are taken from transcripts of hearings on milk licenses, and four markets operating under a rating plan were excluded due to lack of information with respect to the date the plan was instituted.

cream requirements and at times run much higher than are required to meet the daily fluctuation in demand for fluid milk and cream. The average amount of surplus in the market during the eight month period, September 1936 - April 1937 has been about 8.0 percent. Such an excess is considered to be adequate to take care of any fluctuations in sales. Thus if producers would supply at all times of the year 115 percent of the Class I and Class II sales there would be a very economic and efficient handling of milk in the market.

The rating plan is not a new feature in the La Porte County, Indiana, Marketing Area. The benefits of such a plan were recognized in the market as early as 1927 and such a plan was adopted in an order issued by the Indiana State Milk Control Board in 1936.

Thus, the rating plan provided adjusts all ratings in the market to an amount of milk which would adequately care for the fluid milk and cream sales in the market even during the short seasons. There is nothing to prevent a producer from making his deliveries of milk at any season and in any amount that he wishes. The plan, however, does take cognizance of the economic fact that milk delivered in accordance with market needs from season to season is in greater demand by handlers of fluid milk and cream than milk delivered with a high seasonality without regard to seasonal requirements.

The actual computations by which the prices to be paid producers for milk included in their ratings are to be calculated as outlined in the proposed marketing agreement and proposed order are as follows:

Section 2 of article VII provides for the computing of the payments per hundredweight, uniform, with stated adjustments, to producers delivering to individual handlers which will distribute the total values of milk received from producers by individual handlers. The market administrator is required to notify all handlers and publish the uniform prices in effect for any delivery period on or before the 7th day after the end of such delivery period. The market administrator is thus allowed two days from the time of receiving reports of handlers for the necessary computations. The announcement of the prices on this date allows a period of three days after receiving notice of the prices before payment is required to be made to producers as a reasonable time for the clerical work necessary on the part of handlers in preparing checks and statements for distribution to producers.

Having determined the total amounts of the pools according to the method described in this section, it is necessary to subtract from the individual-handler pools the total amounts to be paid to producers for that part of their production which is in excess of their bases in order to determine the total values of base milk for each pool.

Such excess milk is to be paid for at the Class III price so that the total value of such milk in each pool will be merely the amount of such milk multiplied by the Class III price.

There is now left in each pool the amount of money to be divided over all milk which was delivered by producers not in excess of ratings.

This sum is divided by the amount of delivered ratings, the result being the blended price per hundredweight for milk represented by ratings. This blended price is to be paid to the producers delivering to the individual handler for milk of the same quality and grade.

The same ratings as were established under the terms of the Order of the Indiana Milk Control Board are provided for the remainder of the calendar year 1937 in the proposed marketing plan. Provision is also made to establish equitable ratings for the producers who have no rating under the State Order. The ratings for the years subsequent to 1937 are also to be computed in the same manner as ratings calculated under the State Order.

Like the State Order, there is no provision in the proposed marketing agreement and proposed order for a specific adjustment of a producer's rating except as all producers' ratings are adjusted to equal 115 percent of the average Class I milk per day sold during such year by all handlers to whom such milk was delivered.

C. Calculation of a sample individual-handler pool.

In order to present more clearly the most important calculation involved in the computation of the total value of all milk delivered to an individual handler and the price to be paid his producers, an attempt is made to describe such calculations in this section by means of an example.

The handler reports to the market administrator his receipts of milk from producers and his sales from which the administrator determines classification as determined in table 32.

Table 32. - Class utilization of milk by handler A

Handler	Class I (Cwt.)	Class II (Cwt.)	Class III (Cwt.)	Total milk delivered (Cwt.)
A	500	200	300	1,000
Percent	50	20	30	100

The prices assumed for milk used in each class are presented in table 33.

Table 33. - Prices per hundredweight assumed in sample pool

<u>Class</u>	<u>F.O.B. City</u>
I	\$2.00
II	1.50
III	1.25

With these prices the market administrator determines for the

handler the total value of his milk. These values are presented in table 34.

Table 34.- Total value of milk, by classes, in sample pool of handler A

Handler	Class of milk	Amount of milk (Cwt.)	Price to handler	Amount obligated to pay
A	I	500	\$2.00	\$1,000.00
	II	200	1.50	300.00
	III	300	1.00	300.00
	Total	1,000		\$1,600.00

The total amount of \$1,600.00, the total value of the milk of handler A in all classes, is to be distributed among his producers.

The proceeds of the sale of milk to handlers are to be distributed among producers according to a rating plan. The total established and delivered ratings of producers delivering to handler A are presented in table 35.

Table 35.- Total established and delivered ratings of producers delivering to handler A

Handler	Total estimated ratings (Cwt.)	Total delivered ratings (Cwt.)	Total milk delivered (Cwt.)	Excess over delivered ratings (Cwt.)
A	800	700	1,000	300

The next step is to determine the total value of the ratings in the market. All excess milk is to be paid for at the Class III price so that the total value of such milk would be the total deliveries of excess milk times the Class III price, $300 \times \$1.00 = \300 . This amount is subtracted from the total value of all milk, leaving a value of milk represented by ratings equal to \$1,300 as shown in table 36.

Table 36.- Amount available for payment of delivered ratings.

Handler	Amount handlers are obligated to pay	Payment for excess over delivered ratings	Amount available for delivered ratings
A	\$1,600.00	\$300.00	\$1,300.00

The rating or blended price which the handler will pay his producers for milk represented by their ratings delivered is now computed:

Handler	Delivered ratings (Cwt.)	Blended price to producers	Payments to producers
A	700	\$1.857	\$1,299.90*

\$1,300.00 - - 700 (cwt.) = \$1.857 Blended price to producers
of handler A for delivered ratings.

- * The small discrepancy of \$.10 between \$1,300.00 and \$1,299.90 is accounted for by the dropping off of the final decimal points.

In like manner, in accordance with the utilization of milk by the particular handler, the values of rating and excess milk and the prices to be paid the producers delivering to each other individual handler for rating and excess milk are computed. When each handler pool has been computed and paid, every handler has paid the same price for all his milk in each class, and each producer has received an equitable share of the total value of all milk.

The rating or blended prices which various handlers are obligated to pay their producers for milk represented by ratings may vary slightly due to small differences among handlers in the class utilization of milk. However, as shown in Part IV, class sales are rather proportionally shared by all handlers in the marketing area, and the price differentials existing as between the rating price computed in one handler pool and the corresponding price calculated in accordance with the obligations of other handlers are likely to be small. Another factor which tends to keep the price differentials small is the ability of producers to shift easily from one handler to another if the price differential between the price he receives from his handler and that another handler pays becomes large enough to warrant a shift to another handler. However, prices paid by individual handlers in the marketing area in the past have been closely in line with one another. Past experience which has been satisfactory has shown that the small price differentials which may exist in the prices individual handlers pay, when such prices have been computed upon the basis of established class prices and class utilization of milk, have not been an upsetting factor in the market.

PART IX

Other Provisions of the Proposed Marketing Agreement and Proposed Order for the La Porte County, Indiana, Marketing Area.

The remaining provisions of the proposed marketing agreement and proposed order are necessary for defining more explicitly and making effective the classification and price provisions previously discussed.

A. The La Porte County, Indiana, Marketing Area

As defined in the proposed marketing agreement and proposed order, the marketing area includes the territory within the boundaries of La Porte County, (a) which lies north of township 36 North, and (b) which is that part of township 36 North within a 6-mile radius of the city of La Porte.

The territory included in the defined marketing area includes the contiguous and natural marketing area. Milk is regularly distributed throughout the above territory and any attempt to regulate the marketing of milk in La Porte County that did not include it would have to operate under a serious handicap. The marketing area includes two urban areas, the cities of Michigan City and La Porte, and considerable suburban territory into which routes of handlers extend. An indication of the extent to which handlers operating in the marketing area extend their activities to both large urban areas is provided by the fact that one sizable handler distributes 18 percent of his fluid milk in Michigan City and 82 percent in La Porte. Another reported that about 65 percent of his Class I milk was in Michigan City and 35 percent in La Porte. This entire area is intended to include all the areas which are affected by the same supply and demand conditions, and from this point of view constitute one market.

The population of approximately 55,000 in the marketing area is engaged, in addition to agricultural pursuits, largely in diversified industrial pursuits such as the production of road and farm machinery, sponge rubber products, shoes, hardware, textile manufactures, wood patterns and mill work, oil and water heaters, tools and dies, auto accessories and other industrial manufactures.

Sanitation requirements for milk in the territory which includes the marketing area affects the production and delivery of milk. All milk sold in the marketing area as fluid milk or cream must meet the same health requirements. All producers for this market must be registered and inspected regularly by the health authorities. All the milk entering the marketing area is of such similar quality that all enters into competition for the market.

B. Reports of handlers

Article V of the proposed marketing agreement and proposed order sets forth three types of reports which handlers are required to submit. Provision is also made for the verification of these reports. The necessity for these reports and for their verification becomes apparent with the realization of the nature of a milk market and practical operating problems which arise in making effective the class price in the payments to all producers of uniform prices which reflect the utilization of milk by all handlers.

Section 1 requires handlers to submit reports on or before the fifth day after the end of each delivery period, showing, in such detail and form as the market administrator discovers best fits the particular conditions, the information as to all milk or cream received by handlers and the utilization of such milk. With this information before him, the market administrator is able to determine for each handler the classification of the milk, the total payment to be made to producers therefor, and, after combining the total payments of all handlers, the uniform price which will distribute such total amount of money to all producers who delivered the milk to all handlers.

Section 2 provides for other reports with respect to producers delivering milk to a handler. These reports enable the market administrator to secure needed information with respect to producers after a handler has newly become a party to the agreement or subject to the order, or to request information not already in his hands, which is needed for full knowledge and to determine the effects of the order. The second reports provided for under section 2 requires that each handler report to the market administrator upon first receiving milk from any producer who has not previously shipped milk to that handler, in order that the market administrator may keep his records up to date with respect to the producers delivering to each handler.

Section 3 provides for the regular reporting by handlers of their payments to producers for each delivery period in the form of a copy of the handler's producer pay roll. Such a report expedites the routine checking of compliance with the marketing agreement and order and provides in an economical way the information necessary for the market administrator to maintain adequate delivery records.

Section 4 provides that each handler shall permit the market administrator to verify the information contained in all reports. The importance of routine verification of all reports is readily understandable in view of the intricate and detailed transactions which are inherent in the milk business. Where errors both willful and accidental may so readily creep in and affect the returns to producers, successful operation of a marketing agreement and order will depend in large degree upon the extent to which the market administrator assures himself of the correctness of the figures

supplied him in the reports and of the correctness of the sampling, weighing and testing for butterfat of the milk which is delivered by producers. Such routine verification is thus necessary for the effectuation of the provisions of the marketing agreement and order.

The necessity and importance for the verification of reports is well illustrated by experience in other milk markets. For example, the Federal Trade Commission^{18/} reports the following type of abuse and unfair practice on the part of handlers.

"In October 1934, the total Class I sales and Class I purchases of five Philadelphia distributors whose records did not show realization by all classes, and the amount of their underpayments to producers were as follows:

Class I	1,494,069 quarts
Milk purchased at Class I price	1,314,325 "
Class I sales in excess of Class I purchases	179,744 "
Underpayment:	
Total	\$5,365.53
Per quart in all Class I sales (cents)	.3591
of Class I purchases (cents)	2.9851

"In addition to the foregoing five companies the Commission obtained the utilization by classes from the records of eleven distributors. For this latter group, it is possible to show the quantities of Class II and Class III milk sold as Class I, and the amount of underpayment to producers these transactions involved for October 1934:

Class I sales	18,713,397 quarts
Milk purchased at Class I price	18,304,337 "
Class I sales in excess of Class I purchases	409,060 "
Amount bought as Class II	402,384 "
Amount bought as Class III	6,676 "
Underpayment:	\$10,562.61
Per quart on all Class I sales (cents)	.056
Per quart on all Class I sales in excess of Class I purchases (cents)	2.58

"Underpayments to producers by these sixteen Philadelphia companies for October 1934 were:

Total	\$15,928.15
Per quart on all Class I sales (cents)	.078823
Per quart on all Class I sales in excess of Class I purchases (cents)	2.705170

^{18/} Report of Federal Trade Commission in Sale and Distribution of Milk Products, Connecticut and Philadelphia Milksheds, House Document No. 152, page 74.

"One Connecticut dealer buying on a utilization basis was found to have underpaid his producers in June 1934 by selling more Class II milk than he purchased from Connecticut farmers. The figures for this company were as follows:

Class II sales	308,305 quarts
Milk purchased at Class II price	216,889 "
Class II sales in excess of Class II purchases	91,416 "
Underpayment:	
Total	\$314.47
Per quart on all Class II sales (cents)	.10199
Per quart on all Class II sales in excess of Class II purchases (cents)	.34399"

"Dairy farmers of the Connecticut and Philadelphia milksheds lost in excess of \$600,000 during 1934 through practices of certain distributors, for most of which it is difficult to find justification."19/

"The flat-price plan as well as the utilization plan is subject to abuse. A flat-price buyer who usually sells milk only for consumption as fluid milk will offer to purchase from producers at a price which is a trifle higher than the prevailing blended prices they are receiving from other dealers purchasing on a utilization basis. As he disposes of nearly all his milk in fluid form as Class I, he profits by the fact that, although he buys at only slightly higher than the blended price paid by other distributors on a utilization basis for Classes I, II and III, he sells nearly all of the amount which he purchases at the high Class I price. The following table shows the profit obtained in one month by certain dealers from paying for milk on the flat-price basis instead of on the basis of their actual utilization:

	Number of distributors	Profit gained by buying on a flat-price basis instead of on utilization basis.
		Per quart (cents)
		Total (dollars)
Connecticut (June 1934)	6	0.867
Philadelphia (October 1934)	3	.993
		6,648.61
		4,045.84
		10,694.45

"In neither Connecticut nor Philadelphia is flat-price purchasing permitted under board rules unless the dealer pays a price equivalent to the blended price based on his own utilization of the

19/ Summary report on conditions with respect to the sale and distribution of milk and dairy products, House Document No. 94, page 3.

milk. The table, therefore, shows the amount of underpayment to farmers through failure of these dealers to pay the price based upon their own utilization of their own milk purchases as required by board rules. One of the important effects of this practice is that the ability to purchase milk at the relatively low blended prices being paid by other distributors put the flat-price buyer in a very advantageous position to cut prices on milk to the wholesale and retail trade."²⁰

Such other abuses and unfair practices by handlers as making excessive hauling and country station charges, incorrect weighing and testing of milk and taking excessive transportation charges from the country to the city plant prevail in the marketing of milk in many markets.²¹ Thus, the necessity for routine verification of all reports submitted by handlers is important and necessary for the effectuation of the provisions of the marketing agreement and order.

C. Payments to producers

Article VIII of the proposed marketing agreement and proposed order provides that the minimum class prices shall be paid by handlers, for each delivery period not later than the 15th day following the delivery period, in the form of prices to producers computed according to individual handler pools, subject to the butterfat differential as set forth in Article VIII, section 3. The requirement that all handlers must pay for their milk within 15 days following a delivery period assures producers of prompt payment for milk and prohibits handlers from using the credit of producers to finance their business. It prevents some handlers from gaining an advantage over other handlers by delaying payments to producers when their competitors pay producers promptly. Furthermore, prompt payment is necessary in order for the administrator to determine the compliance of handlers.

Paragraph 1 provides that each producer shall be paid for milk delivered the blended or base price as computed in accordance with section 2 of article VII of the proposed marketing agreement and proposed order, subject to the butterfat differential. This butterfat differential represents a compensation between producers who deliver milk of identical characteristics except for a difference in butterfat content. This butterfat differential varies between 3 and 4.5 cents depending upon the price per pound of 92 score butter at wholesale in the Chicago market as reported by the United States Department of Agriculture for the delivery period during which much milk is purchased.

²⁰/ Report of Federal Trade Commission on Sale and Distribution of Milk Products, Connecticut and Philadelphia Milksheds, page 76.

²¹/ The Federal Trade Commission has made investigations into milk-marketing practices in New York City, Connecticut and Philadelphia milksheds, Boston, Mass., Baltimore, Md., Cincinnati, Ohio., St. Louis, Mo., and Chicago, Ill. and found similar practices being carried on by handlers.

Paragraph 2 provides for the completion of the payment by each handler of the full classification value, but no more, of the milk received by a handler as the handler made use of it. Thus, when all the payments set forth in article VIII have been made, each handler has paid the minimum class price uniformly with all other handlers and producers have received equitable prices for milk of similar quality delivered.

D. Producer-handlers

The extent to which the handling of milk of producer-handlers is regulated is presented in article VI of the proposed marketing agreement and proposed order. In the computations provided for under article VII the market administrator, with respect to milk handled by producer-handlers, shall first exclude the milk purchased by such producer-handler in each class from other handlers and then apportion the milk purchased by him from producers to each class according to the ratio which such handler's remaining total sales in each class bear to his remaining total sales in all classes. The purpose of the proposed marketing agreement and proposed order is to maintain orderly marketing conditions by establishing prices to be paid by handlers who purchase milk from producers. The milk of a producer-handler who buys no milk from producers is not included in the marketing plan. However, if a producer-handler does buy milk from producers, such milk purchased is included in the computation of the market administrator and those producers must be paid accordingly.

E. Interhandler sales

Section 2 of article III provides that milk sold by a handler to another handler or to a person not a handler who distributes milk or manufactures milk products, shall be presumed to be Class I milk provided that, if such selling handler submits proof satisfactory to the market administrator that such milk was actually sold or used by the purchasing handler other than as Class I milk, then, and in that event, such milk shall be classified as Class II or Class III in accordance with its actual use.

One of the fundamental objectives of the proposed marketing agreement and proposed order is that all handlers shall pay uniform class prices for milk according to the utilization of such milk. The routes of milk from producers to consumers are so intricate and varied and the milk passes through several handlers, that as a practical necessity the milk must be classified at some focal point in the route. In this way, only can the market administrator be assured that all handlers are paying for milk according to the use which is made of it.

"One Philadelphia dealer was found selling bottled milk to other dealers in violation of the foregoing (Pennsylvania Milk Control Board fixed prices for sales between dealers both for bottled and bulk milk)---.

In all 24,544 quarts are shown by these transactions as having been sold at prices less than fixed by the milk control board, the total amount accruing to the benefit of the buyers of this quantity of milk being \$497.29 below the prices they should have paid, according to the milk control board.

"It is obvious that the ability of buyers of milk to obtain their supply at lower prices enables them to resell the milk at lower than the board prices."^{22/} It is also obvious that if some handlers are able to buy their supply of milk at lower prices, they will also be able to resell the milk at lower than prevailing resale prices to better advantage than their competitors who paid full prices according to the marketing agreement and order. This provision in the marketing agreement and order is intended to remove the possibility that some handlers may gain such an advantage over other handlers through inter-handler transactions, which advantage could be used to create instability in the market.

Most of the inter-handler sales are fluid milk sales, so that it is reasonable to presume that all sales unless proven otherwise are Class I. Provision is made, however, that if such milk is used as Class II or Class III, then the selling handler can, upon submitting proof satisfactory to the administrator, pay the Class II or Class III price for such milk.

F. Definitions

1. "Person" means any individual, partnership, corporation, association, or any other business unit. In the milk industry, practically all types of business organization are to be found. Hence, in order that all handlers subject to regulations in a milk market be regulated, it is necessary that all possible types of business organization be specified and the proposed marketing agreement and proposed order be made applicable thereto. If this were not done, some persons would be exempt from the provisions of the proposed marketing agreement and proposed order, even though the character of their business were such that they were subject to regulation. This would operate to cause the regulatory aspects of the proposed marketing agreement and proposed order to be discriminatory between different firms, and it is to obviate this inequitable result that "person" is so defined as to cover all types of business organization.

2. "Producer" means any person, irrespective of whether such person is also a handler, who produces milk in conformity with the health requirements applicable for milk to be sold for consumption as milk in the La Porte County, Indiana, Marketing Area. Milk which does not meet these requirements cannot be legally sold as milk in the La Porte County marketing area, hence the handlers of such milk should not be subject to any proposed marketing agreement and proposed order relating to such milk. But all milk which meets the health requirements

^{22/} Report of Federal Trade Commission on Sale and Distribution of Milk Products, Connecticut and Philadelphia Milksheds, page 81.

is in actual or potential competition with all other such milk, and handlers of such milk must be subject to any proposed marketing agreement and proposed order for such to be effective in regulating the handling of such milk.

3. "Handler" means any person, irrespective of whether such person is a producer or an association of producers, wherever located or operating who engages in such handling of milk, which is sold as milk or cream in the marketing area, as is in the current of interstate or foreign commerce or which directly burdens, obstructs or affects interstate or foreign commerce in milk and its products.

One of the major objectives of this proposed marketing agreement and proposed order is to place all handlers on a comparable basis with respect to the purchase price they are required to pay for milk sold in the several use classes. In order to do this, all competitive factors in the market must be controlled and directed so that the market operates efficiently and losses engendered by unrestrained, unfair competition are eliminated. In order that this major purpose may be accomplished, all persons involved in the handling of milk and its products in interstate commerce, must be subject to the proposed marketing agreement and proposed order. All types of business set-ups and organizations, both physical and legal, are found. Hence, the definition of a handler must be broad enough to include all those persons who are in competition with each other so that no provision of the proposed marketing agreement and proposed order be discriminating in effect with respect to different firms or persons.

G. Market Administrator and provisions relating thereto

1. Selection, removal, and bond.- In order that the Secretary can be assured that the administration of the proposed marketing agreement and proposed order is being carried out without any bias in favor of or against any group in the La Porte County marketing area, it is necessary that he appoint the market administrator. This procedure has been followed in all Federal milk licenses, due to the fact that it has proven more feasible than other types of administrative organization. The person selected needs to be one of wide experience and one with complete understanding of the proposed marketing agreement and proposed order. In order further to insure unbiased administration of the proposed marketing agreement and proposed order, it is necessary that the market administrator, selected by the Secretary, be subject to removal by the Secretary and only by the Secretary. For further assurance to all concerned of the faithful and honest performance by the Market Administrator of his duties, the market administrator is required to execute and deliver to the Secretary a bond in such amount as the Secretary may determine, with surety thereon satisfactory to the Secretary.

2. Compensation.- The Secretary, who selects the market administrator, should also be the one to determine a reasonable compensation for the market administrator he selects. The market administrator, being necessary for the proper administration of the proposed marketing agreement and proposed order, his salary is considered an expense of administration.

3. Duties.- In order that there shall be proper administration of the proposed marketing agreement and proposed order, the market administrator must:

a. Keep such books and records as will clearly reflect the financial transactions provided for in the proposed marketing agreement and proposed order.

In order for the Secretary to be assured, and to assure producers and handlers of proper administration of the proposed marketing agreement and proposed order, the books and records of the market administrator must be subject to his examination at any and all times. Only by being so assured can the Secretary know definitely that the proposed marketing agreement and the proposed order are effectuating the policy of Congress as stated in the Agricultural Marketing Agreement Act of 1937.

b. In order for the Secretary to be informed, furnish such information and verified reports as the Secretary may request.

c. In order to assure that his duties, for which the Secretary is responsible, are being properly carried out by his employees, obtain a bond for each employee who handles funds entrusted to the market administrator under the provisions of the proposed marketing agreement and proposed order. Most of the money handled in the administrator's office belongs to handlers or producers, and the bond would cover possible losses to them. This insurance being necessary to the proper administration of the proposed marketing agreement and proposed order, the expense of such bond should be a part of the expense of administration.

d. Publicly disclose, except as otherwise directed by the Secretary, the name of any person who has not:

(1) Made reports pursuant to article V of the proposed marketing agreement and proposed order. These reports are the only way in which the administrator can determine in a reasonable length of time sales made by each handler in each class, etc. These reports are necessary in order that prices to producers be computed by the market administrator and the purpose of the proposed marketing agreement and proposed order be effectuated. If the handler pays his producers without filing these reports, other handlers and also the producers should be informed that that handler had not filed reports and that the administrator could not determine if the handler had paid the correct price for his milk. If the producers are not so informed, they might assume that they had been paid the correct price. The administrator must make it known that he had not verified the price paid, and therefore, was not responsible for its correctness.

(2) Made payments pursuant to article VIII of the proposed marketing agreement and proposed order. The market administrator obtains information to compute the price that shall be paid by each handler and also obtains information as to what price was paid. With no notice to

the contrary, a producer might assume that the price he received was the one to which he was entitled, when, in fact, it might be different from what the market administrator had computed as being correct. Because the producer might make such an incorrect assumption, the market administrator must notify such producers that the prices paid by the handlers were not those computed by the market administrator. All handlers will be in the same competitive position only if they pay the prices as computed by the administrator. The other handlers in the market, in order to be on equal competitive terms, should know the names of those competitors who have not paid the correct price for their milk in accordance with the instrument all are supposed to observe.

H. Deductions for marketing services (Article IX of the proposed marketing agreement and proposed order)

The Agricultural Marketing Agreement Act of 1937 states that the Secretary of Agriculture may provide for marketing services as follows:

(Section 8c (5) (F)): "Providing (i) except as to producers for whom such services are being rendered by a cooperative marketing association qualified as provided in paragraph (F) of this subsection (5) for market information to producers and in the verification of weights, sampling and testing of milk purchased from producers and for making appropriate deductions therefor from payments to producers..."

The types of service to be provided are specifically set forth, namely, checking of weights, sampling and tests of milk, and market information. The former has a direct bearing upon the size of payments received by producers, and, in turn, the stability of the market structure, the latter provides for the dissemination of such information to producers as will aid them in a better marketing of their products.

Article IX of the proposed marketing agreement and proposed order provides for market service to producers. In section (1) provision is made for a deduction of three (3) cents per hundredweight from the payments made to producers, such monies to be expended by the market administrator for market information and the verification of weights, sampling and tests of milk. Similarly, section (2) provides that if a cooperative marketing association is found to be qualified under the requirements of paragraph F, section 8c (5), of the act and is properly rendering the services to producers enumerated in article IX, section (1) of the proposed marketing agreement and proposed order, then the monies deducted by handlers from the members of such associations shall be paid over to that association.

"Fairly complete records of receipts, sales, and prices by class and by dealers are also in constant demand. They form the basis of market summaries and are invaluable for keeping the management and the membership informed on market conditions. They are necessary before the association can adequately plan its marketing program or

bargaining procedure, and before it can answer intelligently the many questions which come up from day to day....

"Another consideration which has influenced the practices of a number of associations in the last few years is the fact that other agencies in the market have the desired information already compiled and in many cases apparently are willing to make it available to the associations at any time. This has been the case in some markets under Federal or State Control. As a matter of insurance against future needs, it would appear to be the better policy in the long run for the individual associations to compile the information regularly rather than to let some other agency to take over all their responsibility in this respect."23/

It is declared to be the policy of Congress, as stated in the Agricultural Marketing Agreement Act of 1937, to recognize and encourage producer cooperatives. There is no restriction in the proposed marketing agreement and proposed order which would operate to the disadvantage of, or tend to supplant, their work. Rather, such services are encouraged by reason of recognition that the cooperatives, due to a close relationship with their members, probably are in a better position to render these services to their members than is the market administrator.

Generally speaking, experiences of the cooperatives have demonstrated that the rendering of marketing services to their members is a desirable feature in the proper functioning of the market mechanism. Producers generally do not have available facilities to determine accurately the weight of their milk. Neither are they in a position to test precisely its fat content. Yet, without verification of the weights and tests as determined by the handlers, producers often question the accuracy of the prices paid them. Marketing services in the nature of check weighing and testing are thus rendered because the producers themselves desire that service.

Undoubtedly, spot checking of the purchases of milk of individual handlers by the market administrator would suffice in verifying weights and tests, and, in turn, the accuracy of price computations. However, the producers, as stated heretofore, desire more than this. Their primary concern is that of ascertaining, not the general accuracy of weights and tests determined by handlers to whom they deliver milk, but of the exact weights and tests of their own deliveries.

The presentation of marketing information to producers has become a necessary adjunct to an intricate marketing process. With this information producers are better enabled to adjust their production

23/ "Economic Analysis of Bargaining Problems of Milk Cooperatives"
Farm Credit Administration, Cooperative Division, page 45.

and marketing to current market conditions. The United States Department of Agriculture regularly furnishes information to producers in the form of crop and livestock reports, outlook statements, etc. This service is maintained only because producers realize it is indispensable.

The dissemination of current local market information, such as price aspects of the market, local supply and demand conditions, etc., by the market administrator serves a similar purpose.

The State of Indiana Milk Control Board in its order with respect to La Porte County provides for a deduction of three (3) cents from producers to meet its cost of operation, which includes costs of service as outlined above and administration expenses. The experience of the Board seems to illustrate that this deduction is sufficient and reasonable to give adequate service.

The experience of the Indiana Milk Control Board and experience based upon the activities of the Federal Government in numerous other milk markets indicates that a deduction of three (3) cents per hundred-weight will be sufficient to pay for adequate marketing services in this market. It is to be remembered that the three-cent deduction is a maximum deduction and may be reduced if too large an income is being received. Also the expenditures from this fund are subject to audit by the United States Department of Agriculture. Thus, producers are assured of the proper use of the monies collected in the marketing service fund.